

Tilburg University

Accounting choices of controllers

de Groot, Therèse

Publication date:
2015

Document Version
Publisher's PDF, also known as Version of record

[Link to publication in Tilburg University Research Portal](#)

Citation for published version (APA):
de Groot, T. (2015). *Accounting choices of controllers: An insight into controller deliberations*. [Doctoral Thesis, Tilburg University, Open Universiteit]. CentER, Center for Economic Research.

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal

Take down policy

If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

Accounting Choices of Controllers

An insight into controller deliberations

Accounting Choices of Controllers

An insight into controller deliberations

Proefschrift ter verkrijging van de graad van doctor
aan Tilburg University
op gezag van de rector magnificus, prof. dr. E.H.L. Aarts,
en de Open Universiteit
op gezag van de rector magnificus, prof. mr. A. Oskamp,
in het openbaar te verdedigen ten overstaan van een
door het college voor promoties aangewezen commissie
in de aula van Tilburg University

op woensdag 2 september 2015 om 10.15 uur

door

Therèse Jolanda de Groot

geboren op 20 juli 1962 te Smallingerland

Promotores:

Prof. dr. A.C.N. van de Ven RA

Prof. dr. ir. M.H. Corbey

Overige leden van de promotiecommissie:

Prof. dr. I. De Loo

Prof. dr. M.N. Hoogendoorn RA

Dr. B.H.J. Verstegen

Prof. dr. E.G.J. Vosselman

ACKNOWLEDGEMENTS

千里之行,始于足下 - *A thousand-mile journey is started by taking the first step.* Lao-Tzu

Years ago I took my first steps in the world of academic research. A world completely out of my comfort zone and very different from the world of practitioners, a world with its own rules and its own language and even its own sense of humor. Some of the conversations sounded like Chinese to me, and academics laughed when I was serious and they did not laugh when I tried to make a joke. And just when I thought I had got the hang of it, suddenly there appeared to be various ‘continents’ within the academic world, each with their own language and their own rules. The ‘continent of positivist research’, for example, with hypothesis and theory testing and the ‘continent of interpretative research’ trying to understand phenomena through accessing the meanings participants assign to them. After many years, I still have difficulties in understanding all these different languages and rules. Fortunately I am not the only one. The ‘inhabitants’ of these different areas sometimes also seem not to understand, or not willing to understand, each other’s language and rules. They do, however, all have something in common; they share a passion for science and are always willing to help those with less knowledge, like me. I would like to express my gratitude to everyone whose path I crossed for their help and patience. Naming everyone individually would result in a very long list. However, a few names have to be mentioned: I specifically thank Bernard Verstegen and Arco van de Ven for all their support. Each of them has an own approach, but both were very inspiring and communicated their - sometimes tough - critiques on my work in a pleasant way. They also helped me discover which area of the academic world suited me best.

That a PhD process is complex and is influenced by a multitude of factors – just like the accounting choice process – was confirmed during my last year when there were a number of unforeseen circumstances. These led to a logical step of a transfer to Tilburg University, although I had taken all my (interesting) PhD courses at the Open University. This situation further enriched my knowledge of the academic world, in particular the administrative and financial side. I was pleased, however, that the Open University and Tilburg University agreed to continue with my PhD as a joint doctorate. The input of Michael Corbey, who was very kind to agree

being my second supervisor in this new arrangement, as well as the comments of the committee members were extremely valuable in the last stages of this PhD. Thanks to their critical comments, I also learned how to explain where in the academic world I had 'settled', and why I had settled there.

My thanks also go to the organization which facilitated this research. The contribution of all those interviewed is greatly appreciated. Needless to say, without their participation there would be no thesis.

Combining a PhD and a full-time job did not leave much time for my husband and my two daughters, Jennifer and Vivian. I thank them for never complaining about the lack of attention, although it makes me wonder if perhaps they enjoyed the peace and quiet! Being married to Jim proved to be of significant economic value; with his finance background he was a perfect sparring partner. With his new job as a Finance lecturer at the Hotelschool The Hague and his recently acquired interest in applied research, there are many opportunities to further increase the 'economic value' of our marriage. Finally, I would like to thank my mother who listened patiently to all my discoveries in this new academic world, which I shared with her during our evening telephone calls. Actually, if you want to know how the academic world works, and where I finally 'settled' within this world.....just call my mother.

Table of Content

| | | |
|-------|---|----|
| 1 | Introduction | 7 |
| 1.1 | General background | 7 |
| 1.2 | Journey of discovery..... | 11 |
| 2 | Literature review..... | 13 |
| 2.1 | The concept of earnings and the Definition of other key concepts | 13 |
| 2.2 | Accounting choices of controllers | 17 |
| 2.3 | Accounting choice behavior | 20 |
| 2.3.1 | Reporting behavior and the economic perspective | 22 |
| 2.3.2 | Additional insights into reporting behavior | 24 |
| 2.3.3 | The role of the controller and controller behavior in general | 25 |
| 2.3.4 | Implications for analyzing the accounting choice behavior | 26 |
| 2.4 | Factors affecting accounting choices of controllers..... | 27 |
| 2.5 | Factors identified in research relating to the role of the controller | 32 |
| 2.6 | Summary findings to be used for accounting choices of controllers | 36 |
| 3 | The perspective of institutional logics | 41 |
| 3.1 | Institutional theory..... | 41 |
| 3.2 | Institutional logics | 43 |
| 3.3 | Summary: the use of an institutional logics perspective | 46 |
| 4 | Methodology..... | 47 |
| 4.1 | Philosophical assumptions and implications for research | 47 |
| 4.1.1 | Reflection on philosophical assumptions | 47 |
| 4.1.2 | Positioning of research in the field..... | 48 |
| 4.1.3 | Justification of research results..... | 49 |
| 4.2 | Domain of research and data collection process | 51 |
| 4.3 | Data analysis..... | 55 |

| | | |
|-------|--|-----|
| 4.3.1 | Introduction..... | 55 |
| 4.3.2 | Data analysis of the individual interviews..... | 56 |
| 4.3.3 | Group feedback sessions and data analysis of feed back | 57 |
| 4.3.4 | Analyzing the findings from a broader perspective | 58 |
| 4.4 | Translation of data | 60 |
| 5 | Findings | 61 |
| 5.1 | The general setting..... | 64 |
| 5.1.1 | The organization, the stakeholders and the reporting procedures | 64 |
| 5.1.2 | Dominant logics in the accounting choice process | 66 |
| 5.1.3 | Corporate finance staff expectations..... | 73 |
| 5.1.4 | Competing logics | 76 |
| 5.1.5 | Summary..... | 79 |
| 5.2 | Controllers' accounting choices | 80 |
| 5.2.1 | BU controllers' accounting choices | 80 |
| 5.2.2 | Categories of activities in the accounting choice process..... | 82 |
| 5.2.3 | Controller deliberations and rule based behavior | 91 |
| 5.2.4 | Accounting choices incurred | 93 |
| 5.2.5 | Summary..... | 102 |
| 5.3 | Controller style and other controller related factors | 104 |
| 5.3.1 | Controller style | 104 |
| 5.3.2 | Technical financial accounting knowledge and interpretation of rules | 107 |
| 5.3.3 | Other controller characteristics | 110 |
| 5.3.4 | Summary..... | 112 |
| 5.4 | Actors and factors influencing accounting choices | 113 |
| 5.4.1 | Actors in the general setting | 113 |
| 5.4.2 | Actors in the BU setting..... | 117 |
| 5.4.3 | Factors influencing accounting choices..... | 119 |

| | | |
|-------|--|-----|
| 5.4.4 | Summary..... | 124 |
| 5.5 | Controllers deliberations..... | 126 |
| 5.5.1 | The provision for bad debt..... | 126 |
| 5.5.2 | Timing of expenses..... | 130 |
| 5.5.3 | The provision for obsolete inventory..... | 141 |
| 5.5.4 | Summary..... | 145 |
| 6 | Discussion, limitations and conclusions..... | 147 |
| 6.1 | Opening the 'black box'..... | 148 |
| 6.1.1 | Personal reflections on the journey of discovery..... | 148 |
| 6.1.2 | Revelations of the 'black box'..... | 149 |
| 6.2 | Theoretical implication of findings..... | 151 |
| 6.2.1 | The 'true and fair view' perception..... | 151 |
| 6.2.2 | Dominant logics and accounting choices..... | 153 |
| 6.2.3 | Operational systems and accounting choices..... | 155 |
| 6.2.4 | Complementing mainstream accounting research findings..... | 157 |
| 6.3 | Practical implications..... | 160 |
| 6.4 | Limitations of research and concluding remarks..... | 162 |
| | Summary..... | 165 |
| | Samenvatting (Dutch summary)..... | 169 |
| | Appendix 1 Prequestionnaire..... | 175 |
| | Appendix 2 Interview guide..... | 176 |
| | Appendix 3 Postquestionnaire considerations and outcome..... | 177 |
| | Appendix 4 Factors: empirical findings and theory..... | 183 |
| | List of Figures and Tables..... | 185 |
| | Literature..... | 187 |

1 INTRODUCTION

Auditors state in an Auditor's Report: "in our opinion, the consolidated financial statements of [organization] give a *true and fair view* of the financial position and of the results and of the cash flows for the period ended [audited period]." They also refer to the General Accepted Accounting Principles (GAAP) that are used as a basis for the preparation of the financial statements. GAAP provides instructions and guidelines that are used to ensure this 'true and fair' presentation. Controllers have to make accounting choices when preparing the financial reports of their organization or their organizational entity. They have to make judgments relating to valuation of assets, such as the collectability of receivables outstanding and the identification and valuation of obsolete inventory. They also have to make decisions on accounting for provisions in specific situations, for example when the organization is confronted with claims or is in a restructuring situation, and make an estimate of the amount of these provisions. How do they ensure that their choices are in line with GAAP, and how do they determine that the financial result presented is a 'true and fair' presentation of the financial situation of their organization or organizational entity? Little is known about this choice process. This study aims to provide insights into the accounting choice process of controllers.

This introduction consists of two sections. The first section describes the general background, explaining why the research subject was chosen. The second section describes the 'journey of discovery' during the research, and provides further background information relating to the structure and content of this thesis.

1.1 GENERAL BACKGROUND

Within GAAP there is a range of accounting choices available to controllers, and those preparing financial statements can make conscious use of the choices available within this range. Some of these choices are labelled as 'earnings management' by academics and practitioners. Earnings management is currently one of the most popular topics in mainstream financial accounting research (Merchant, 2010) and is defined by Schipper (1989) as "a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain (as opposed to, say, merely facilitating the neutral operation of the process)" (p. 92). Most empirical earnings management research projects focus on identifying determinants affecting earnings management and use archival analysis, based on published financial statements, as

research method. The accounting choice process itself is, however, seldom addressed in these studies and is a 'black box'.

Accounting choices are divided by Dechow and Skinner (2000) in two subcategories: 'within GAAP' and 'violating GAAP'. The 'within GAAP' accounting choices vary from conservative via neutral to aggressive choices, but there is a border. If accounting choices are too aggressive, then this border is crossed and they are considered to be 'violating GAAP' choices. Dechow and Skinner illustrate this as follows:

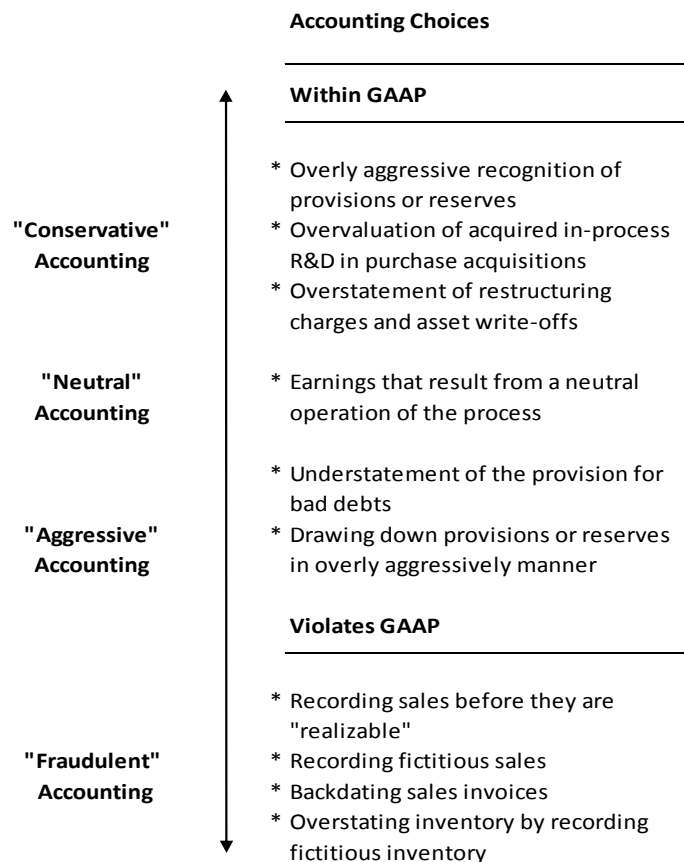


Figure 1 Categories of accounting choices. Adapted from "Earnings Management: Reconciling the Views of Accounting Academics, Practitioners, and Regulators," by P.M. Dechow and D.J. Skinner, 2000, *Accounting Horizons*, 14(2), p. 239¹

According to Schipper (1989), earnings management is a purposeful intervention in a 'neutral reporting process'. But what does this 'neutral reporting process' look like? How do controllers value this 'right' neutral estimate or judgment when determining e.g., provisions for bad debts and obsolete inventory? Even the border between within GAAP choices and GAAP violating

¹ This figure is excluding the 'cash flow choices' that Dechow and Skinner included in their figure, since cash flow choices do not fall within the subject of this study.

choices is not necessarily straightforward. Hines (1988) strikingly illustrates how accounting choices are neither black or white but grey. The words of Hines, *“As I said, there is no truth as such, but there is such a thing as stretching it too far – that is when you get caught out”* (p.256), reflect the grey and subjective area of accounting choices. Controllers take a position within this grey area and decide what choices they still consider as acceptable within GAAP choices.

Dechow and Skinner (2000) discuss the difficulty of identifying earnings management with the commonly used research methods of statistical analysis of large samples in mainstream research. They stress the importance of the managerial intent of the accounting choices and state that accounting choices that are made in order to “obscure or mask true economic performance” are to be considered as earnings management (p. 236). The behavioral aspects of accounting choices are thus important. Studies into the behavioral aspects of earnings management are more difficult to find. Some studies are available, focusing on ethical orientation, professional commitment and personality characteristics in relation to earnings management choices (e.g., Greenfield, Norman, & Wier, 2008; Merchant & Rockness, 1994). These studies focus on the outcome of the decisions but not on how the participants come to these decisions. Moreover, they are confined to accounting choices with earnings management intent, and do not address accounting choices in general. Controllers do not necessarily make accounting choices with earnings management intent; they (hopefully) also make choices with the intention of presenting the aforementioned ‘true and fair’ view in their financial statements.

Studies relating to the behavioral aspects of earnings management generally use experiments or questionnaires. These methods allow researchers to quantify their findings and test their hypotheses. But in ‘real life’, controllers face more complex situations than the simplified settings of an experiment or a survey. What decisions are made when combinations of the variables occur? Research relating to the role of the controller provides insights into the complex work setting of controllers (e.g., Burns & Baldvinsdottir, 2005; Järvenpää, 2007) and controller involvement in decision making (Zoni & Merchant, 2007). Moreover, De Loo, Nederlof and Verstegen (2006) provide insights into individual controller behavior by detecting behavioral patterns of controllers. These studies, however, focus on the controller and controller behavior in general and not on the controllers’ accounting decisions. This aim of this research is to study the latter: it aims at addressing accounting choice behavior.

The objective of this study is *to gain insights into the accounting choices of controllers by studying the accounting choices that are available to controllers, the accounting choice decision process which leads to the accounting choices of the controllers, and the factors affecting these choices*. The following research questions have been formulated:

1. What accounting choices are available to controllers?
2. How are accounting choices made by the controller?
3. What factors affect the accounting choices of controllers?

There are a number of recent trends that make this a valuable subject for research. Trends that are often referred to in academic literature are the recent major accounting scandals, often discovered long after the audited financial statements were published, and the financial crisis, together with the role of financial reporting in this process. Other trends are less well-publicised or are not referred to in the academic literature but, most likely, they have an impact on the financial statements. First, many organizations² have recently accelerated their year-end closing process (Janvrin & Mascha, 2014). The shorter the time after year-end and before reporting, the more estimates and judgments have to be made for balance sheet items such as bad debt provision, claims and disputes, etc. Second, the budgets for auditors are increasingly under pressure (Ettredge, Fuerherm, & Li, 2014). Auditors are required to spend their resources carefully and are forced to only look at material items. Controllers of large organizations often deal with items that may not be material for audit purposes, and these are thus not reviewed by the auditors. Therefore they might not be challenged on the choices incurred which can result in a variety of behaviors relating to accounting choices within the organization. The above-mentioned trends, in combination with the ‘gap’ in the literature relating to the accounting choice process were the underlying reasons for choosing this subject for further research.

This research contributes to accounting theory by providing insights into accounting choice behavior by not only studying the outcome of the accounting choices – the financial statements – but also the process leading to that outcome. Using an interpretive approach is also a

² Conquaestor, a Dutch consulting firm, performs a yearly review of the timeliness of publication of financial results of Dutch listed companies. For the year 2013 more than half of the quoted companies accelerated their reporting time. Source: <http://www.conquaestor.nl/publicatie/rapportagecyclus-van-nederlandse-beursfondsen-toont-verbetering-2014>, dated 23-06-2014. Retrieval date April 19th, 2015.

response to the frequently signaled narrowness of mainstream accounting research (e.g., Lukka, 2010; Merchant, 2010), with earnings management being a popular subject of this mainstream research. An interpretive approach offers a new perspective on accounting choices, which can also be used for further earnings management research. The use of this interpretive approach guided the researcher to take a different route than expected. This 'journey of discovery' is outlined in the next section.

1.2 JOURNEY OF DISCOVERY

The research approach relating to the data collection and initial data analysis was based on the background information and deliberations noted in Section 1.1. As outlined, the available studies that address accounting choices predominantly relate to the subject of earnings management, trying to identify its determinants. This type of research is part of mainstream accounting research which is based on an economic perspective (Jorissen & Otley, 2010; Merchant & Rockness, 1994). This *economic perspective* was an important basis for the first part of the journey of this research. The literature which formed the basis for the initial research approach is described in Chapter 2.

During the data analysis phase it was found, however, that the accounting choice process is complex and influenced by the total setting of the choice rather than one, or a few, specific determinants. It appeared not to be possible to directly relate an accounting choice to specific determinants. In addition, the total setting of the accounting choices was analyzed rather than the individual determinants, providing a holistic approach of the factors and actors involved. Nevertheless, the description resulting from this analysis did not do justice to all the findings that emerged from the data. This conclusion led to the second phase in the journey of this research: using another perspective than the theoretical basis outlined in the literature, which formed the basis for the initial approach of the research. It was found that using the perspective of *institutional logics* enabled an explanation of the findings that emerged from the empirical research. Chapter 3 outlines the literature relating to the perspective used in this phase of the research.

The research thus has been a journey of discovery, where the empirical findings led the researcher to take another route than the initial route of economic perspective. Controllers use an economic perspective in their daily work, using planning and control cycles, forecasting

outcomes on the basis of specific actions taken, etc. Being a practitioner, this was also the 'inherent thinking pattern'. During the research, it was found that this perspective did not fully explain the findings and therefore another perspective was needed. The 'journey of discovery' is further described in Chapter 4, the methodology chapter.

The results of the journey are presented in Chapter 5, in which the findings of the empirical research are outlined. Finally, in Chapter 6 the discussion and conclusions are presented, including the limitations of this research. Figure 2 provides an overview of the research process and the structure of the thesis.

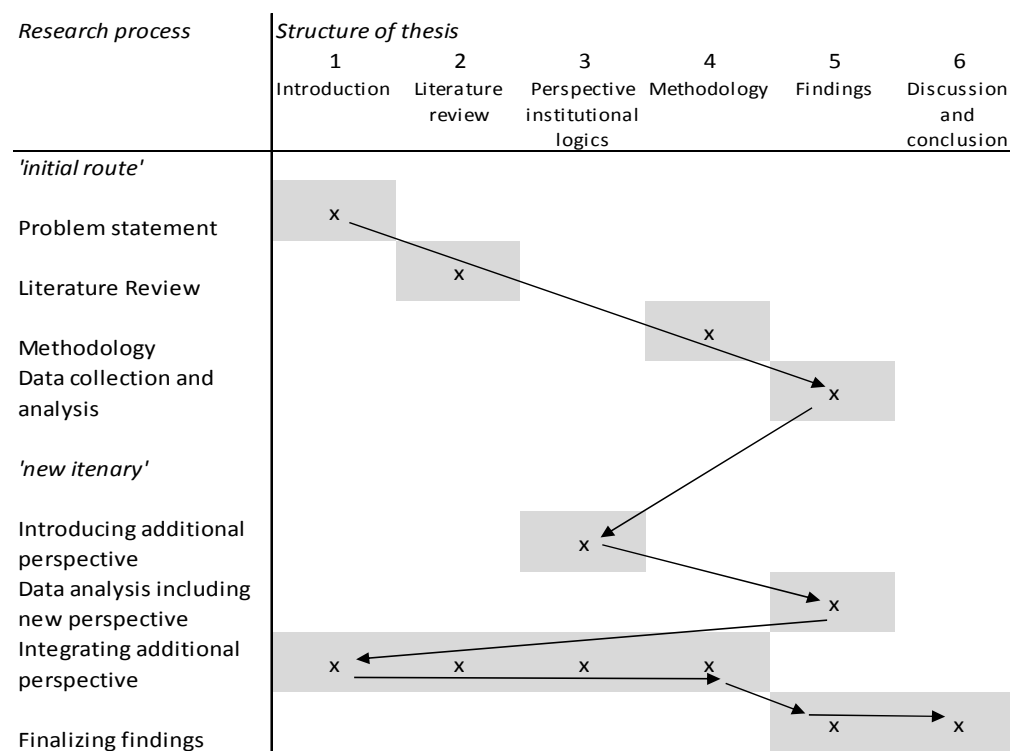


Figure 2 Overview of research process and structure of thesis

2 LITERATURE REVIEW

This chapter starts in Section 2.1 by explaining the key concepts used in this research. This is followed by Section 2.2 which provides an analysis of the accounting choices available to controllers identified in the literature, addressing the first research question. Section 2.3 discusses research relating to accounting choice behavior in order to provide a theoretical basis for the second research question: how are accounting choices made? This section also discusses research relating to the role of the controller, as this may also provide insights into controller behavior that can be used for accounting choice behavior analysis. The third research question - identifying factors influencing accounting choices - is then discussed. Section 2.4 analyzes financial accounting literature relating to accounting choices, and the factors affecting these choices. Although not specifically oriented towards accounting choices, the literature relating to the role of the controller and controller involvement in decision making is also useful for this purpose. This literature is outlined in Section 2.5. Finally, the use of the available literature for the research objective in this study is summarized in Section 2.6.

2.1 THE CONCEPT OF EARNINGS AND THE DEFINITION OF OTHER KEY CONCEPTS

In their article “To tell the truth: A discussion of issues concerning truth and ethics in accounting” Bayou, Reinstein and Williams (2011) discuss the apparent discrepancy between the Auditor’s task - ensuring financial statements give a *true and fair representation* of the financial position of the organization - and the objective of the Accounting Standards. Accounting standards are used as a basis for financial statements to ensure the ‘true and fair’ representation of the financial position of the organization. Accounting-standard setters, however, concentrate on decision usefulness, not truth, as the ultimate objective for financial reporting. In this study, the Accounting Standards are used for the operationalization of the concept *earnings*, being defined as: net income according to GAAP³. Shapiro (1997) argues for a pragmatic view on objectivity in (financial) accounting and defines principles of rationalism as a

³ Generally Accepted Accounting Principles are documented in Accounting Standards: US GAAP and IFRS are examples of these standards. For the purpose of this study the Accounting Standards used by the researched organization is used as a basis.

condition for a rational and objective debate on financial reporting.⁴ Accounting standards can then be seen as a socially constructed reality, and they form the agreed ‘rules of the game’ that organizations have to follow in their financial reporting procedures. There is, however, not ‘one right amount’ of earnings, but rather there is a ‘range of earnings that is acceptable’. As outlined in the introductory chapter, a number of choices, ranging from conservative to aggressive, are available, that fall in the within GAAP area (Figure 1). The range of earnings that is acceptable within GAAP will be referred to in this thesis as *the boundaries* of earnings, sometimes this is also referred to as *the grey area*. The question is, how are the accounting choices within this range made by controllers?

Earnings consists of a cash component and an accrual component. An *accrual* refers to any individual entry recording revenue or expense in the absence of a cash transaction. For example, when goods are sold and invoiced but not yet paid, income is recognized for the period but – since the cash is not yet received – the amount is accounted for on the balance sheet as ‘debtors’, being an accrual. Dechow, Ge and Schrand (2010) note that earnings management research is often analyzed from an accrual perspective. Using the analysis of abnormal accruals is based on the assumption that accruals consist of a *non-discretionary element* and a *discretionary element*, the latter being possibly subject to earnings management manipulations. The discretionary component of an accrual is determined by management’s reporting and implementation decisions, whereas the nondiscretionary component is influenced by other factors such as economic conditions, operating environment, etc. For example, for the balance sheet item ‘debtors’ the non-discretionary element is the total amount of accounts receivable at the period end. This element is a result of the sales- and invoicing of goods or services for the period. The discretionary element is the provision for bad debt. This provision is based on a judgment of possible collection of the outstanding debts.

⁴ Shapiro lists three principles. First, participants in a debate must give justification or evidence for their assertions and respond to counterarguments. Second, participants only assert what they know not to be false and do not assert something that lacks evidence. Third, participants must, independent of their opinions and attitudes, be able to evaluate the extent to which a reporting practice may achieve an explicitly stated reporting objective.

| | Case | Balance Sheet | Profit&Loss Account |
|---------------------------------------|------|---------------|---------------------|
| Sales | 1000 | | 1000 |
| cash received = cash on balance sheet | 500 | 500 | |
| accrued income | | | |
| invoices outstanding | 500 | | |
| less: bad debt | -100 | | -100 |
| debtors on balance sheet | 400 | 400 | |
| net income = equity on balance sheet | | 900 | 900 |

Figure 3 Example of an accrual with its non-discretionary and discretionary component

Financial statements consist of various *reporting items*; the reporting item 'debtors' in the above example being one of them. Any accounting choice affecting the amount of a balance sheet reporting item also affects earnings.⁵ This research focuses on accounting choices by analyzing the reported balance sheet items.

The definition for *accounting choices* used in this study is based on that of Fields, Lys and Vincent (2001)⁶: a decision that influences the output of the accounting system, being the (published) financial statements. Accounting choices are, to a certain extent, defined at an organizational level. Scott (2003) identifies two categories of accounting choices: accounting policies and discretionary accruals. Accounting policies such as depreciation periods for the various categories of fixed assets, accounting for goodwill etc., are generally determined at an organizational level. Discretionary accruals, such as the above-mentioned provision for doubtful debt, often involve estimates and judgments made by the controller and the operational managers. This research does not focus on organizational choices, but on the choices of

⁵ Unless it is a reclassification from one balance sheet item to another balance sheet item.

⁶ Fields et al. (2001 p.256) use the following definition "any decision whose primary purpose is to influence (either in form or substance) the output of the accounting system in a particular way, including not only financial statements published in accordance with GAAP, but also tax returns and regulatory filings." For the purpose of this research the definition of accounting choice is slightly altered. The words 'whose primary purpose is' are not included into the definition. Even if the decision maker does not have such a purpose, choices that influence the financial statements are still considered to be accounting choices. The words 'either in form or in substance' are also not included because they relate more to the presentation in the financial statements and this study focuses on numbers, not on additional disclosures etc. And finally, since this research is limited to the financial statements and not on other regulatory filings, the reference to tax returns and regulatory filings Field et al. make in their definition is not included.

controllers made within the framework set by the accounting standards and the organizational standards. It should be noted that earnings can also be influenced by other choices than accounting choices. The timing of transactions (such as delaying maintenance) or the type of transactions (such as a sale and lease-back transaction) also affect earnings. In earnings management literature, these choices or actions are referred to as ‘real earnings management’ (Schipper, 1989), ‘cash flow choices’ (Dechow & Skinner, 2000) or ‘transaction structuring’ (Healy & Wahlen, 1999). This research focuses on accounting choices, and not on this latter category of ‘other’ choices that affect earnings management.

Since this study focuses on the accounting choices of controllers, it is also important to understand how ‘controller’⁷ is defined. The profession of controller has a long history, and the role of the controller has developed over time, also within the Netherlands (De Loo, Verstegen, & Swagerman, 2011; Maas, 2005; Van de Ven, 2014). The association of Dutch certified controllers (Vereniging van Register Controllers) describes the development of the role of the controller as follows on their website: “The certified controller is becoming increasingly important. Being previously mainly involved in controlling and describing and reviewing processes, controllers are now increasingly involved in the strategic development, consulting and management of organizations.”⁸ Besides this development over time, the implementation of the role of the controller can vary considerably, depending not only on the organizational setting but also on the individual characteristics of the controller (Byrne & Pierce, 2007; Van de Ven, 2014). For the purpose of this research, the following definition is used: “A *controller* supports and advises the management of an organization in achieving their economic, public and/or financial goals. Support is interpreted in terms of the design and maintenance of management control and accounting information systems and the procurement and distribution of information” (Verstegen, De Loo, Mol, Slagter, & Geerkens, 2007, p. 11). This definition is abstract enough to encompass the broadening scope of the controller’s role and the organizational and individual differences in role implementation.

⁷ Some studies use the word ‘management accountant’ others refer to ‘controller’. Within organizations the terminology ‘finance manager’ or ‘chief financial officer’ is also used, often depending on the size and independency of the organizational entity. In this study the terminology ‘controller’ is used.

⁸ The original text of the website (in Dutch) is as follows: De Registercontroller (RC) wordt steeds belangrijker. Hield hij zich eerder vooral bezig met controleren, beschrijven en beheersen van processen, steeds vaker wordt hij betrokken bij strategische ontwikkelingen, adviestrajecten en de besturing van organisaties. Source: <http://www.vrc.nl/word-rc/De-Registercontroller-in-opmars.html>. Retrieval date April 19t, 2015.

Within an organization there are, depending on the organizational structure, controllers at various levels: corporate controllers at corporate headquarters, and business unit controllers at business unit level (Sathe, 1983). This research focuses on Business Unit controllers, hereafter referred to as the BU controller. The definition given by Indjejikian and Matějka (2006) for *Business Unit* is used: “an entity that (1) has its own general manager (hereafter, BU manager), (2) has a chief financial officer (hereafter, BU controller), and (3) is held responsible for a clearly defined part of the business by means of a periodic budget” (p. 856). One more condition has been added for the purpose of this study: (4) has its own financial statements consisting of a balance sheet and a profit and loss account. The latter condition is important since it is the accounting choices made by the BU controller that affect this balance sheet and the profit and loss account of the BU that are being studied. The BU controller is the financial expert of the Business Unit and is therefore responsible for making decisions relating to accounting choices of the Business Unit.

Having elaborated on the key concepts used in this thesis, the next section discusses the literature relating to accounting choices.

2.2 ACCOUNTING CHOICES OF CONTROLLERS

In order to obtain insights into the accounting choices of controllers, the first question is: what accounting choices are available to them? In the previous section, an accounting choice was defined as: a decision that influences the output of the accounting system, being the (published) financial statements. Decisions that influence the output of the accounting system relate to the *discretionary component of accruals*. As explained in Section 2.1, the discretionary component of an accrual is determined by management’s reporting and implementation decisions, whereas the nondiscretionary component is influenced by other factors such as economic conditions, operating environment, etc. Hence, the discretionary part of an accrual involves an accounting choice where controllers have to decide on the valuation of the assets, have to determine a ‘best estimate’ of liabilities, and have to make decisions relating to the allocation of revenues and expenses for the reporting period. The accounting choices of controllers may vary from conservative to aggressive, but have to be made within the boundaries of GAAP. As the balance sheet of the financial statements mainly consists of accruals, controllers are confronted with a range of accounting choices relating to most of the reporting items in the financial statements.

Research into accounting choices can be divided into three main categories: archival analyses reviewing trends in financial statements, questionnaires/experiments studying specific accounting choices, and case studies analyzing accounting choices made in the setting of specific organizations or situations. Analyzing (trends in) financial statements is a frequently used approach in financial accounting research. Earnings management studies are, for example, often based on archival analysis of financial statements by trying to isolate the discretionary part of the accrual component and identifying ‘abnormal accruals’ (Dechow, Hutton, Kim, & Sloan, 2012). Analyzing accounting choices on the basis of trends in accruals is, however, a global way of approaching the accounting choices, and does not provide information on the specific accounting choices available. Only some studies analyze the trend of a specific reporting item, such as restructuring charges (Bens & Johnston, 2009) and research and development capitalization (Seybert, 2010). More specific accounting choices have been studied, using surveys and experiments. Accounting choices addressed in the studies discussed in this section are summarized in Table 1.

| Subject | Reporting item | Research |
|---|-----------------|--------------------------------------|
| Revenues | | |
| Book revenues now rather than next quarter (if justified each quarter) | Revenue accrual | Graham et al. (2005) |
| Expenses | | |
| Postpone taking an accounting charge | Expense accrual | Graham et al. (2005) |
| No recording of supplies received in December until following February (GAAP violating) | Expense accrual | Merchant et al. (1994)/ Elias (2012) |
| Not recording expenses of services received until following year (GAAP violating) | Expense accrual | Merchant et al. (1994)/ Elias (2012) |
| Prepay next year's expenses and record them as current expenses (GAAP violating) | Expense accrual | Merchant et al. (1994)/ Elias (2012) |
| Request supplier's invoice after year-end (GAAP violating) | Expense accrual | Merchant et al. (1994)/ Elias (2012) |
| Valuation of assets and liabilities | | |
| Draw down on reserves previously set aside | Provisions | Graham et al. (2005) |
| Write off inventory that is known to be sold at full price (GAAP violating) | Inventory | Merchant et al. (1994)/ Elias (2012) |
| Reverse previous write off of inventory of goods | Inventory | Merchant et al. (1994)/ Elias (2012) |
| Other (no category specified) | | |
| Timing of booking transactions | Accrual | Maas et al. (2009) |
| Alter accounting assumptions (allowances, pensions, etc.) | Various | Graham et al. (2005) |
| Relabeling line items (GAAP violating) | Various | Maas et al. (2009) |

Table 1 Specific accounting choices studied using surveys and experiments

In the studies noted in Table 1, participants’ responses relating to specific accounting choices were analyzed, either to understand their underlying motivation (J. R. Graham, Harvey, & Rajgopal, 2005) or to relate the choices to specific factors, such as ethical orientation (Elias,

2002; Merchant & Rockness, 1994) or personal characteristics (Maas & Matějka, 2009). These specific choices related to the timing of revenues and expense, estimates of provisions, and classification of reporting items, and also included GAAP violating choices. In all these studies the choices were presented to the interviewees/participants, asking their opinion on a hypothetical choice. Hence, these were not the actual accounting choices that the participants had made in 'real life'.

The last category of studies into accounting choices, a case study relating to a specific organization or situation, explores the accounting choices that were actually made 'in real life'. This type of research studies these choices within their specific context. Jorissen and Otley (2010) studied the underlying processes triggering misstatements in the financial reporting of two connected major European airlines that went bankrupt. They adopted a case study approach and used the investments in foreign airlines as an accounting item of their study. Jorissen and Otley identified four accounting choices that were used to influence the numbers; the accounting method choice (using either a cost method or equity method), write downs, provisions for future costs, and future commitments. Kepsu (2012) studied the process of preparing corporate financial reports within one organization from an earnings management perspective, and found that a wide range of accounting choices were under discussion within the organization. The choices related to various reporting items and the type of choices also varied, ranging from changing an accounting method to determining the amount for an impairment or a provision. The accounting choices identified in these case studies are summarized in Table 2.

| Subject | Reporting item |
|--|---------------------------|
| <i>Focus on investments in airlines in the light of financial misrepresentation, Jorissen et al. (2010)</i> | |
| Accounting choice method for equity method instead of consolidation | Investments in associates |
| Write down investments | Investments in associates |
| Creating a restructuring provision | Provisions |
| Creating a provision for future losses and commitments | Provisions |
| <i>Focus on earnings management choices, Kepsu (2012)</i> | |
| Adjust the stage of completion method for construction contracts | Construction contracts |
| Create a guarantee work provision and determine amount | Provisions |
| Determining the amount of the provision for employee bonuses | Provisions |
| Capitalize R&D expenses: what projects, timing, amount | Intangible assets |
| Write off intangible asset R&D: timing, amount | Intangible assets |
| Depreciation of intangible asset R&D: accelerate depreciation | Intangible assets |
| Allocation of acquisition costs | Goodwill/various |
| Impairment testing of goodwill | Goodwill |
| Classification choices of extraordinary costs | Various |

Table 2 Accounting choices identified in two case studies

It should be noted that both the study by Jorissen and Otley and that of Kepsu, as well as the other above-mentioned research were performed from the perspective of earnings management. This refers to the intentional use of accounting discretion in order to obtain a private gain (Schipper, 1989) or to obscure or mask true economic performance (Dechow & Skinner, 2000). Within this earning management perspective, a broad range of choice was identified involving many reporting items. The objective of this research, however, is broader than accounting choices with an earnings management intention; it aims to study accounting choices in general. Choices of controllers are not always made with a specific intention of earnings management. These types of choices have not been addressed in previous studies and can involve other types of choices that have not been identified in the literature evaluated in this section. Using the *reporting items* within the financial statements as a first basis for analysis is a good starting point for identifying the accounting choices available to controllers. It enables a discussion on which items they made an accounting decision.

The studies discussed in this section reveal that one reporting item can involve several choices such as changing an accounting method, timing choices, and determining the valuation of assets or liabilities. Therefore, this research requires an open approach in identifying the accounting choices available. Using semi-structured interviews as a research method facilitates this objective. After studying the financial statements and management reports of the BU as preparation for the interviews, the range of choices emerging from these documents can be identified and discussed with the interviewees. Systematically enquiring into these choices enables controllers to discuss choices that they consider as routine and/or those which may not even identify as being a choice. Additionally, using open questions and having controllers reflect on their choices, allows a discussion on choices that were not identified by the researcher when preparing the interview.

The next section addresses literature relating to accounting choice decision behavior, addressing the second research question: how do controllers make their accounting choices?

2.3 ACCOUNTING CHOICE BEHAVIOR

In this section, research relating to accounting choice behavior is discussed. When controllers make an accounting choice, they make a decision. There is a vast amount of literature on decision theory. The purpose of this section is not to provide a literature review of decision

theory, but to analyze the literature relating to accounting choices in the context of accounting choice decision behavior of controllers, hereafter referred to as 'accounting choice behavior'.

There are different ways of analyzing the accounting choice behavior of controllers. From an economic perspective, controllers consider the available alternatives and decide which alternative is the best choice in light of their preferences. Simon (1955) addresses the constraints of this economic perspective. These constraints are not only related to the environment - such as constraints relating to the information available - but also to cognitive limitations of individuals. When confronted with a complex situation, controllers need to simplify the situation and determine the alternatives available for their accounting choice. Due to the cognitive limitations, not all possible alternatives will be part of the alternatives considered by the controller. Accounting choices of controllers can also be based on routines. Routines are defined by Burns and Scapens (2000) as "the way in which things are actually done" (p. 6). Burns and Scapens use an institutional approach and make a distinction between 'routines' and 'habits'. Routines refer to behavior patterns that are adopted by a *group of individuals*, whereas habits refer to behavior patterns of *individuals*. Behavior as a result of habits is hereafter referred to as 'rule based behavior'. Rutherford (1994) states that there are many different type of rules, ranging from personal rules to social and legal rules. Hence, rules can be entirely personal: "certain habits and routines may be of this nature, as may certain rules of personal morality." (pp. 52-53).

When analyzing accounting choice behavior, some researchers refer to the perspective they use as '*a theoretical lense*' (Burns & Baldvinsdottir, 2005; Byrne & Pierce, 2007). The first part of this section outlines findings relating to accounting choice behavior from earnings management research, using an economic perspective. This is followed in Section 2.3.2, by describing the outcome of two case studies that enrich the above findings by using another perspective (the upper echelon theory) and by revealing the complexity of the economic perspective of agency theory when applied to 'real life situations'. Then, in Section 2.3.3, research relating to the role of the controller is discussed. This research sheds another light on controller behavior which may also be applied to accounting choice behavior. In this section, research using an 'institutional lense' is only briefly addressed; Chapter 3 further elaborates on literature using the institutional perspective. Finally, the implications of the analysis for the second research question – how do controllers make their accounting choices – are presented in Section 2.3.4.

2.3.1 Reporting behavior and the economic perspective

Earnings management studies are predominantly based on an economic perspective (Jorissen & Otley, 2010; Merchant & Rockness, 1994). From this perspective, individuals are assumed to make accounting choices by considering the cost and the benefits of their decision. An individual may thus manage earnings if he/she thinks the benefit (e.g., the reputation of the organization or his/her personal interest) outweigh the cost of discovery of the earnings management which might affect his/her personal reputation. An illustration of this line of reasoning - cited from a study of the effect of financial regulation on earnings management by using the accounting choice for restructuring provision - is: "Another reason to think that restructuring charges may not be used to manage earnings is the cost incurred on detection." (Bens & Johnston, 2009, p. 676). Earnings management studies based on archival research of published financial statements all seem to use this approach, although this underlying assumption is hardly ever explicitly stated in these studies.

Another, not always explicitly expressed, underlying assumption of earnings management research is the agency theory. Agency theory is based on a situation where work is delegated. The individuals delegating the work are called 'the principal' and the individuals executing the work are called 'the agent'. Examples of principal/agent are: shareholder/board of directors and board of directors/local management. The agent has more information than the principal and can decide what to do with this information. Using the economic perspective, the agent will make decisions that benefit his/her interest. If the interests of the principal and agent are not aligned, then there is a potential problem. This is referred to as 'the agency problem'. One method of mitigating this problem is the alignment of the goals of principal and agents using contracts and incentives. The principal can also ensure that the agent is monitored. Audits of the financial statements of an organization and the corporate governance within organizations are examples of ensuring that agents work in the way intended by the principal.

In a study by J.R. Graham, Harvey and Rajgopal (2005), the authors provide insights into the underlying motivation of reporting behavior from the economic and agency perspectives in the playing field of the organization and 'the market'. These authors performed a survey among more than 400 Chief Financial Officers (CFOs) and followed up the findings with 20 interviews with CFOs. They found that CFOs view earnings as the most important metric reported to outsiders and consider it important to meet earnings benchmarks. The reasons for trying to

avoid missing an earnings benchmark that CFOs agreed with, or even strongly agreed with, were the following: it creates uncertainty about our future prospects (80.7%); outsiders think there are previously unknown problems at our firm (60.0%); we have to spend a lot of time explaining why we missed the benchmark rather than focus on future prospects (58.2%). This was further discussed in the subsequent interviews. The authors conclude: "In general, the interviewed CFOs feel that the market hates unpleasant surprises, and surprised investors or analysts become defensive" (p. 32). Also, virtually all CFOs (96.9%) were found to prefer smooth earnings rather than volatile earnings. In their survey, 78% of the CFOs indicated that they would sacrifice long-term value to smooth earnings. The main reasons for this preference for smooth earnings indicated in the survey were that smooth earnings (as opposed to volatile earnings) are thought to be perceived as less risky by investors, and they make it easier for analysts to predict future earnings. Moreover, the authors report that the most surprising finding of their study is that most earnings management is achieved via cash flow choices⁹ as opposed to accounting choices. "Surprisingly, executives are more reluctant to employ accounting discretion within GAAP such as accrual management to meet earnings targets, although accrual management is likely to be cheaper than giving up economic value" (p. 66). And yet 'big bath accounting' (Walsh, Craig, & Clarke, 1991) is a well-known phenomenon. 'Big bath accounting' refers to very conservative accounting behavior that often occurs within organizations that have substantial losses: since a loss is expected anyway, the thought is that one might as well be conservative when estimating accruals and provisions in order to have some reserves for the year(s) after. Does the outcome of the study by J.R. Graham et al. mean that the CFOs participating in their survey are reluctant to use this type of accounting choice? A possible explanation is that the use of accounting discretion is not considered as being socially accepted and therefore CFOs are less inclined to admit this kind of behavior. Another possible explanation is that the use of more conservative accrual estimates in loss-situations is not perceived by CFOs as the use of accounting discretion. Hence, analyzing the findings from another perspective, such as personal background and preferences, may provide another view as to the underlying motivation of reporting behavior.

⁹ Cash flow choices referred to were: decrease discretionary spending such as R&D, advertising and maintenance and delay starting a new project even if this entails a small sacrifice in value.

2.3.2 Additional insights into reporting behavior

Analyzing findings from different perspectives is an approach used in a case study relating to financial misrepresentation by Jorissen and Otley (2010). They analyzed their findings from two perspectives: the economic perspective and the ‘upper echelons theory’. The latter theory suggests that “the organization becomes a reflection of its top executives, whereby the CEO functions as the central strategic decision-maker who is able to control the composition of the organization’s top strategy-making group” (p. 9). Furthermore, CEO behavior is, according to this theory, influenced by the CEO’s personality, values and experiences. In this case study, the authors revealed that the CEO chose a strategy for the organization that fitted with his prior pattern of strategic choices in other organizations. Furthermore, contracts and incentives were aligned with his strategic choice in order to present results that supported the success of the chosen strategy. These results did not represent the economic situation of the organization, and led to bankruptcy. In agency theory contracts are used by principals to align the interests of the agents with their own interests. In this case study the CEO – being the agent for the shareholder, but acting as principal for local management within the organization – influenced the contracts and incentives in order to present results that supported the success of his strategic choice. The underlying motivation was the CEO’s strong belief in the chosen strategy. This was influenced by his previous experience, where this strategy was successful. Hence, the underlying motivation of reporting decisions can be influenced by personal factors. An other case study by de Jong, DeJong, Mertens and Roosenboom (2007) identifies the drive of an organization to demonstrate the success of a chosen strategy. They studied investor relations, a broader subject than earnings management. It provides a rich description of how the organization’s strategy - and the drive to prove that this chosen strategy is successful - plays a role in the presentation of the financial results. Moreover, it gives further insights into the complexity of actors in the principal-agent theory. Not only the shareholders and the organization are involved, but also the financial analysts and advisors play an important role in the setting.

The above studies reveal the importance of the *personal background* in the decision making process as well as the influence of *various actors*, both actors within the organization as well as external actors. These studies still use the economic perspective as a ‘base case’ perspective to explain reporting behavior. Within the research area of the role of the controller, the economic perspective is not as dominant. Although this type of research does not focus on accounting

choice behavior, it may provide additional insights into controller behavior that can also be interesting for analyzing controller behavior relating to accounting choices.

2.3.3 The role of the controller and controller behavior in general

A number of studies focus on the role of the controller and the development of this role over time (De Loo et al., 2011; Ezzamel, Lilley, & Willmott, 1997). The change of the controller from 'bean counter' to 'business partner' is a central theme (Järvenpää, 2007). A study by A. Graham, Davey-Evans and Toon (2012) revealed that the controller's role has not so much changed from the traditional reporting and control function to a business partner role, but rather broadened to include forward-looking aspects. The authors did a follow up of the outcome of their survey, holding 12 interviews with controllers about what they did in their work roles, what they would ideally like to be doing in their roles, and with which obstacles they were confronted. These interviews revealed that the controllers found it difficult to perform the business partner role due to time constraints and the limitations of the technical systems. Also, they referred to management lacking an appreciation of the costs and benefits related to obtaining better information. This means that not only technical and personnel resources play a role in the controller's work situation, but also other organizational *actors* and the *culture* within the organization.

Case studies that analyzed the change of the role of the controller in transforming from a central (financial) control function to a more decentralized business-oriented role also revealed these influences and show the complexity of this transformation process (Burns & Baldvinsdottir, 2005; Järvenpää, 2007). Rather than being a technical process changing the tasks and responsibilities of the controller, it involves a change of culture and routines within the entire organization. Burns and Baldvinsdottir (2005) used *old institutional theory* as their theoretical perspective for their case study. An institution is defined by Burns and Scapens (2000) as "a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of people" (p. 5). In order to effectuate change, introducing new rules, structures and systems is not sufficient; the organizational culture and routines also have to be addressed. Järvenpää (2007) confirmed this and outlined the importance of the informal interventions which were used in the case company studied: attention paying, role modelling, and 'story telling'. Hence behavior within organizations is

largely determined by routines. This also plays a role in the accounting choice behavior of controllers.

In their case study, Ezzamel and Burns (2005) reveal how difficult it can be to change 'institutions'. The study relates to an unsuccessful management control change project within an organization. This was analyzed using a theoretical perspective of *power relations*. The case study showed that by implementing a new management control strategy the original boundaries of the finance professionals' work field were broadened to part of the work field of buying & merchandising professionals. This was not accepted by the buying and merchandising professionals, who used their discourse to demonstrate their superior knowledge in their field. The perspective of power relations provides yet again another light on controller behavior.

To summarize, controllers work in a complex setting where both organizational culture and power relation play a role. Moreover, the underlying motivation for accounting choices may not only be driven by economic behavior but also by (organizational) routines.

2.3.4 Implications for analyzing the accounting choice behavior

This section provides insights into deliberations relating to reporting decisions from an economic perspective. Yet, accounting choice behavior cannot be fully explained from an economic perspective alone; it is also influenced by previous experience or routine behavior. Moreover, organizations have their own 'institutions' which influence controller's behavior and therefore are likely also to influence their accounting choices. Using the agency theory to explain underlying motivation for accounting choices is complicated because other actors may be involved than the regularly assumed principle/agent actors. Depending on the controller's setting, different actors can influence the decision making process and power relations can play a role in this process as some actors may have more power than others.

Depending on the chosen analysis perspective, different insights can be obtained. In order to answer the second research question - how are accounting choices made by controllers – it is therefore important to collect the data in such a way that it allows analysis from different perspectives. The use of open questions during the interviews to discover how controllers make their choices and by allowing controllers to elaborate on subjects they find important when explaining their choice process, facilitates this type of data collection.

Section 2.4 addresses the third research question: what factors affect the accounting choices of controllers?

2.4 FACTORS AFFECTING ACCOUNTING CHOICES OF CONTROLLERS

Earnings management research identifies a number of factors influencing reporting behavior.

The factors influencing accounting choices identified in financial accounting research are grouped for the purpose of this study into two main categories: 'individual controller related' factors and 'controller setting' factors. The latter influence the setting in which the controller works. These factors can be external, organizational and/or situational.

An important external factor is the *financial and other regulation*. Bens and Johnston (2009) found that reported restructuring charges significantly decreased after the introduction of EITF No.94-3¹⁰ which provided guidance for accounting for restructuring charges. In addition to financial accounting regulation, other regulation also influence accounting choices, for example pricing regulation. Bowman and Navissi (2003) identified firms making income-decreasing discretionary accruals in order to increase the likelihood of price increase approval.

The *governance* relating to the implementation of the regulation also affects accounting choices. Bens and Johnston (2009) also reported that behavior relating to restructuring charges was analyzed both during a period when the SEC¹¹ closely monitored the implementation of the new guideline, and during a period without the SEC paying specific attention. They found that 'big bath behavior' - overstating the restructuring charges in order to create some hidden reserves - was lower in the period of specific SEC monitoring than in the period without specific SEC monitoring. *Audits*, also a means of governance, are another factor of influence. Chen, Kelly and Salterio (2012) found that the combination of audit actions and (severe) audit attitude influenced reporting behavior.

Within the organization, the *board of directors* plays an important role in the corporate governance. There is general agreement that board independence decreases the manipulation of accruals, i.e. earnings management (Osma, 2008). Sarkar, Sarkar and Sen (2008) found,

¹⁰ EITF (Emerging Issues Task Force) publications provide guidance for the implementation of the accounting standards published by the FASB (Financial Accounting Standards Board).

¹¹ SEC is the Securities and Exchange Commission, a government commission created by Congress to regulate the securities markets and protect investors.

however, that board quality rather than board independence is associated with lower earnings management. Their study revealed that the percentage of independent directors in the board was not related to earnings management. They identified three factors that were positively related to earnings management: the presence of controlling shareholders in the board of directors, CEO duality (the CEO also holds a position as chairman of the board), and 'busy' independent directors (directors with a large number of multiple directorships). High 'board diligence', which was operationalized as the percentage of meetings attended by independent directors, was found to be negatively associated with earnings management.

Another organizational factor influencing reporting behavior is *ownership structure*. Jiraporn and Dadalt (2009) found, for example, that financial statements of family controlled firms showed less 'abnormal accruals' than the financial statements of non-family owned firms. Comparing public equity firms and private equity firms, Givoly, Hayn and Katz (2010) identified lower accrual quality and more conservatism in the financial statements of public equity firms. For this purpose, they analyzed financial statements of publicly traded equity firms and privately held equity firms that were considered public because they had publicly traded debt and therefore had to publish their financial statements. The *financing structure* and debt covenances also affect reporting behavior (Jha, 2013; Wang & Lin, 2013).

A frequently researched subject is the influence of *incentive compensation* on reporting decisions. Most studies are performed on an organizational level using published financial statements. Guidry, Leone and Rock (1999) analyzed Business Unit data of a large conglomerate and found that business unit managers use discretionary accruals in order to maximize their bonuses.

Finally, *specific situations* have been studied that influence accounting decisions, such as reporting behavior of firms before and after initial public offering (Ball & Shivakumar, 2008; Xiong, Zhou, & Varshney, 2010) and reporting behavior before and after the introduction of specific financial or other regulatory aspects (Bens & Johnston, 2009; Jorissen & Otley, 2010). A study into the frequencies of reported small profits compared to small losses (Burgstahler & Dichev, 1997) indicates that firms with earnings around zero tend to manage their earnings to show a small profit, rather than show a small loss.

The above-mentioned factors are interesting when analyzing the influence of the setting of the controller on the accounting choices. The second group of factors identified in previous

research relates to the influence of individual controller related factors on accounting choices. Greenfield, Norman and Wier (2008) studied the impact of an individual's *ethical ideology* on earnings management decisions¹². They note that an ethical orientation of an individual varies from 'relativism' to 'idealism': "Relativism describes an individual's concern for a universal set of rules or standards; idealism focuses on human welfare" (p. 420). They found a positive relationship between earnings management behavior and individuals with a relativist ethical orientation, and a negative relationship between earnings management behavior and individuals with an idealist ethical orientation. Ethical perception of earnings management choices vary considerably. Merchant and Rockness (1994) performed a survey among managers, controllers and internal auditors on the ethical perception of various earnings management choices. They found significant disagreement among the respondents for most of the choices. Consistent with findings by J.R. Graham et al. (2005), their study also revealed that accounting choices were perceived to be less acceptable than cash flow choices, such as delaying maintenance, advertising expenditure, or investing in projects with a positive net present value. Merchant and Rockness (1994) found that the difference of within-GAAP or GAAP-violating choices did not seem to affect the perceived acceptability of the intervention. The authors give two possible explanations for this phenomenon. Either the respondents find the underlying ethical issue more important than GAAP compliance, or the respondents do not all have this specific GAAP knowledge. This lack of *GAAP knowledge* may also be the reason for findings by Elias (2002), who used the same earnings management choices as Merchant and Rockness (1994) for a survey among controllers, auditors, accounting faculty members and accounting students. Elias found that accounting students were more lenient in their judgment on accounting choice earnings management activities than practitioners and faculty; perhaps they did not identify the GAAP-violating choices. Controllers' GAAP knowledge therefore is also likely to have an impact on their accounting choices.

Not only ethical orientation plays a role in decision making, but also the weighing of the 'benefit' related to the misreporting and the cost of 'being caught'. It was found that reporters with prior experience as an auditor are more sensitive to large penalties for aggressive

¹² Greenfield et al. used a cash flow decision in their study, giving the participants the option whether or not to postpone maintenance resulting in lower maintenance expenses for the reporting period.

reporting than those who did not have this prior experience (Bowlin, Hales, & Kachelmeier, 2009)¹³.

Finally, other personal characteristics have an impact on controller's choices. Hartmann and Maas (2010) performed an experiment relating to organizational slack and found that the *personality characteristic Machiavellianism*¹⁴ has an impact on organizational slack. Since organizational slack relates to 'managing budgets', the results are also interesting for research relating to 'managing earnings' and accounting choices. Moreover, if controllers try to meet targets, they may manage both the budgets and the financial results. Maas and Matějka (2009) studied both type of intervention and found a positive relationship of role conflict and misreporting. The subject of role conflict is further discussed in the literature review section relating to the role of the controller.

The factors influencing earnings management and reporting choices that were identified in the above-mentioned studies are summarized in Table 3. With respect to the individual controller related characteristics, it should be noted that the above-mentioned research has been performed among various groups of individuals. The type of population used in a study is likely to affect the outcome. A summary of the populations researched in the literature reviewed is provided in Table 4. Although the above analyses are partly based on research using other populations than BU controllers, they provide a number of factors that can influence accounting choices. These factors are either related to the setting in which the controller works or to individual controller specific characteristics.

Another area of research that can provide insights into the factors influencing accounting choices, is research relating to the controller in general. Although these studies do not focus on the accounting choices of controllers, a number address the controller's involvement in decision making and factors influencing this involvement. The factors identified in these studies may also influence the accounting choices of controllers. These studies are analyzed in Section 2.5.

¹³ Bowlin et al. used a game theoretic approach in their study. The participants had the option to choose either 'cautious' or 'aggressive' reporting in a specific setting.

¹⁴ A person's tendency to deceive and manipulate other people for their personal gain

| Factors | Study | Research area | Research method* | | | |
|--|---|--|------------------|------|-----|------|
| | | | INT | SURV | EXP | ARCH |
| Controller setting | | | | | | |
| External | | | | | | |
| Accounting standards | Bens et al. 2009 | Earnings management | | | | X |
| Other regulation | Bowman et al. 2003 | Earnings management | | | | X |
| Governance and audit | Bens et al. 2009, Chen et al. 2012 | Earnings management Earnings management | | | X | X |
| Organizational | | | | | | |
| Board of directors | Osma 2008, Sarkar et al. 2008 | Earnings management | | | | X |
| Ownership | Jiraporn et al. 2009, Givoly et al. 2010 | Earnings management | | | | X |
| Financing structure and covenants | Jha 2013, Wang et al. 2013 | Earnings management | | | | X |
| Incentive compensation | Guidry et al. 1999 | Earnings management | | | | X |
| Role of controller within organization | Maas et al. 2009 | Role conflict and misreporting | X | X | | |
| Situational | | | | | | |
| Earnings around zero | Burgstahler et al. 1997 | Earnings management | | | | X |
| Initial public offering | Ball et al. 2008 | Earnings management | | | | X |
| Change in regulation | Bens et al. 2009 | Earnings management | | | | X |
| Individual controller related | | | | | | |
| Ethical orientation | Greenfield et al. 2008 | earnings management (cash flow choice) | | | X | |
| | Merchant 1994, Elias 2002 | perception of earnings management activities | | X | | |
| Professional commitment | Greenfield et al. 2008 | earnings management (cash flow choice) | | | X | |
| Personality | Hartmann et al. 2010 | budgettary slack (machiavalism) | | | X | |
| Experience as auditor | Bowlin et al. 2009 | reporting decisions | | | X | |
| Technical (GAAP) knowledge | Merchant 1994, Elias 2002 | perception of earnings management activities | | X | | |
| *INT=Interview, SURV=Survey, EXP=Experiment, ARCH=Archival | | | | | | |

*INT=Interview, SURV=Survey, EXP=Experiment, ARCH=Archival

Table 3 Factors influencing earnings management and reporting decisions

| Study | Population researched |
|------------------------|---|
| Merchant 1994 | 200 MT members (managers, controllers) of 2 organizations and 108 members of Institute Internal Auditors |
| Elias 2002 | 763 CPA Auditor, CPA Controller, Accounting faculty members, Accounting Students |
| Maas et al. 2009 | Interviews: 48 BU controllers. survey 134 controllers of medium/large companies, members of Controllers Institute |
| Hartmann et al. 2010 | 136 students of a two year parttime executive program in finance and control |
| Greenfield et al. 2008 | 376 senior-level business students |
| Chen et al. 2012 | 171 senior corporate managers, MBA alumni |
| Bowlin et al. 2009 | 96 upper division undergraduate accounting students |

Table 4 Population studied in reviewed literature

2.5 FACTORS IDENTIFIED IN RESEARCH RELATING TO THE ROLE OF THE CONTROLLER

Research relating to the role of the controller does not focus on the accounting choices of controllers, but on controllers' activities and the development of the role of the controller. Section 2.3.3 outlined literature related to this subject which provides insights into controllers' behavior. This section further explores the literature in order to identify factors that may affect controller behavior relating to accounting choices.

As referred to in Section 2.3.3, the development of the role of the controller from 'bean counter' to 'business partner' is a central theme in the literature relating to their role (Järvenpää, 2007). Controllers in a business partner role are likely to have more business knowledge which can affect accounting choices relating to estimates of reporting items such as (the valuation of) fixed assets, inventory and debtors. Hunton, Wier and Stone (2000) performed studies into rank-based differences in knowledge and ability of controllers. They found that *technical knowledge* decreased and was increasingly variable at higher rank levels of controllers, whereas *industry knowledge* increased and was decreasingly variable. These two types of knowledge therefore vary both on an individual basis and on a functional basis (depending on the role/rank of the controller within the organization).

Controllers who are close to the business are likely to have more 'local' knowledge than corporate controllers who work at a central staff department. This is called 'information asymmetry'. The controller decides how to use this information when making his/her accounting decisions. In this light, it is interesting to consider the findings by De Loo, Nederlof and Verstegen (2006). They revealed different behavioral patterns of controllers relating to the sharing of information; controllers either fully shared (relevant) information with higher levels in the organization, or only partly shared this information. They also identified different patterns of assessing business unit performance: controllers either assumed an involved role or a detached role. An involved role of the controller, where he/she combines a business oriented role with a functional control role, can lead to *role conflict* for the controller. On one hand the controller is supposed to be business partner involved in the decision-making process, while on the other hand he/she is expected to perform a controlling role. If the controller is, for example, pressured to make very aggressive accounting choices in order to meet the organizations' targets, then organizational and professional conflict (OPC) may occur. Maas and Matějka

(2009) found that the business oriented role and the control role are not complementary. An emphasis on the control role was negatively associated with local decision-making. Moreover, it was positively associated with role stress and ambiguity, which was in turn related with misreporting. This confirmed the findings of Indjejikian and Matejka (2006), who identified a relation between controller involvement in decision-making and organizational slack¹⁵. They also found that organizational slack is positively associated with information asymmetry; they used the term *business growth* as a proxy for information asymmetry.

The level of controller involvement in management decision processes may also have an impact on the way they use their judgments and estimates when making accounting choices. Their accounting choices may be less conservative than choices made by controllers who are not involved in management decision processes. This might explain the findings by Zoni and Merchant (2007) that controller involvement is positively associated with performance. They noted that the direction of this causality was not identified. Either controller involvement increases performance or high performing organizations are more inclined to involve controllers in their decisions. They studied the variables that resulted in more or less involvement of controllers in management decision processes. They found a positive relation with some situational variables - such as *capital intensity*, *operating independency* - and controller involvement in management decision processes. They also found a relation between *line managers' financial competence* and controller involvement in decision-making. Line managers are members of the organization who have expectations relating to the role of the controller, which leads us to Byrne and Pierce (2007), who performed a study in order to identify a comprehensive set of antecedents and characteristics with respect to the roles of controllers.

Byrne and Pierce (2007) use role theory as one of their theoretical lenses. According to role theory, the organizational roles are determined by the role senders - the other members of the organization who have expectations relating to the role. The personal characteristics of the person who 'occupies' the role and his/her interpersonal relation with the role sender influence the role senders' expectations. Byrne and Pierce found a strong influence of management

¹⁵ Indjejikian and Matejka used 'perceived achievability of targets' as an indicator of organizational slack with the underlying assumption that easily achievable targets do not motivate managers to make full use of their resources: by attaining their targets there is no longer an incentive for any further effort. Setting easy attainable targets in budgets is also called 'budgetary slack'. As outlined in Section 2.4 it can be argued that since budgetary slack relates to 'managing budgets' the results are also interesting for research relating to 'managing earnings' and accounting choices.

expectations on the role of the controller. In this light, the study by Pierce and O'Dea (2003) is also interesting. They researched the perception-gap of controllers and managers relating to management information and related the outcome to the role of the controller. The combination of a strong manager (one who combines detailed knowledge of information requirements with an assertive management style) and a strong controller (one who achieves an effective balance between independence and involvement) minimizes the risk of a perception gap. Zoni and Merchant (2007) also found that line managers' financial expertise is positively associated with controller involvement in decision-making, thereby confirming the impact of the characteristics of line managers on the role of controllers. Therefore, not only the individual characteristics of the controller but also *characteristics of the line managers* they work with may affect controller decision-making and influence their accounting choices. Byrne and Pierce (2007) also found that the capacity of controllers to influence their roles is associated with their attitude, personality and initiative. De Loo, Verstegen et al. (2011) identified a number of controller characteristics associated with the way they implemented their role: *the number of years experience* in a financial function, *age*, *gender* and whether someone considered him/herself as an 'executor' or a 'thinker'. Finally, Byrne and Pierce also emphasize a number of difficulties for controllers relating to 'interpreting' the line managers expectations, adapting to different styles of line management, and possible role conflict between 'business partner' and 'watchman'. In summary, the combination of the line manager and the controller, including their interpersonal relationship affects how the controller implements his/her role. This can affect whether the accounting choices made are more or less aggressive and/or the estimates of reporting items.

Although the above-mentioned studies focus on factors influencing controllers' involvement in decision-making and the role of the controller, these factors may also affect the accounting choices of controllers. The additional factors identified in this section are summarized in Table 5.

| Factors | Study | Research area | Research Method* | | | |
|---|-------------------------|---|------------------|------|-----|------|
| | | | INT | SURV | EXP | ARCH |
| Controller setting | | | | | | |
| Capital intensity | Zoni et al. 2007 | Involvement in decision making | | X | | |
| Operating interdependencies | Zoni et al. 2007 | Involvement in decision making | | X | | |
| Business growth | Indjejikian et al. 2006 | Organizational slack | | X | | |
| Line manager: | | | | | | |
| • Financial competence | Zoni et al. 2007 | Involvement in decision making | | X | | |
| • Knowledge and management style | Pierce et al. 2003 | Perceptions of managers and controllers | X | X | | |
| Individual controller related | | | | | | |
| Personality | De Loo et al. 2006 | Behavioral patterns | X | | | |
| | Byrne et al. 2007 | Role of controller | X | | | |
| | De Loo et al. 2011 | Controller activities | | X | | |
| Nr. years in financial funtion | De Loo et al. 2011 | Controller activities | | X | | |
| Industry knowledge | Hunton et al. 2000 | Rank of controllers | | X | | |
| Technical (GAAP) knowledge | Hunton et al. 2000 | Rank of controllers | | X | | |
| Age | De Loo et al. 2011 | Controller activities | | X | | |
| Gender | De Loo et al. 2011 | Controller activities | | X | | |
| *INT= Interviews, SURV= Survey, EXP= Experiment, ARCH= Archival | | | | | | |

Table 5 Factors influencing controller involvement in decision making

Most of the studies in Table 5 are based on surveys. The type of population participating in the survey may affect the outcome. A summary of the populations researched in the literature reviewed is provided in Table 6.

| Study | Population researched |
|-------------------------|--|
| Zoni et al. 2007 | 17 controllers, 14 CEO's |
| Pierce et al. 2003 | 11 organizations: each 1 controller, 1 product manager, 1 sales/marketing manager |
| Indjejikian et al. 2006 | 6 firms: 104 Business Units: each 1 BU controller and 1 BU manager |
| Hunton et al. 2000 | 2,941 Certified Management Accountants in junior, senior and manager-level positions |
| de Loo et al. 2006 | 11 BU controllers, 5 controllers in various positions in organizations |
| Byrne et al. 2007 | 18 controllers and 18 operating managers |
| De Loo et al. 2011 | 251 graduates of controller's programs from 3 universities |

Table 6 Population studied in reviewed literature

In this section, additional factors are identified that affect involvement of controllers in decision-making and therefore which may also influence accounting choices of controllers. Combining these with the factors identified in Section 2.4 provides a detailed theoretical basis for analysis in order to answer the third research question relating to the factors influencing the accounting choices of controllers.

2.6 SUMMARY FINDINGS TO BE USED FOR ACCOUNTING CHOICES OF CONTROLLERS

No literature was found which was directly aimed at accounting choice behavior of controllers, studying what choices they are confronted with, what choices they make, and how they make these choices. Accounting choices made within an earnings management context has, however, been frequently studied. The role of the controller is also a standard research subject. These two different areas of research have been used to provide a theoretical basis for two of the three research questions.

The findings can be used to answer the first research question: ‘what are the accounting choices that are available to controllers?’. The choices identified in Section 2.2.1 were predominantly those that were presented to the participants by the researchers. Analyzing the accounting choices of two case studies that focused on misreporting and earnings management revealed a broad range of accounting choices. These related to a number of reporting items. Moreover, deciding about one reporting item often involved more than one choice. It should be noted that these case studies were performed from the perspective of earnings management rather than from a general accounting choice perspective, and that the choices were analyzed on an organizational level, not on a business unit level. Therefore, the literature review did not result in an exhausting list of accounting choices available to BU controllers when preparing their financial statements. Table 7 provides an overview of the accounting choices identified in the literature review, classified by reporting item.

In order to identify accounting choices available to BU controllers which may be beyond the accounting choices identified above, a twofold research approach was taken. First, by using the BU financial statements and management reports as a basis for identifying accounting choices as a preparation for semi structured interviews, the accounting choices available to the BU controllers were discussed systematically. Second, using open questions and having controllers reflect on their choices facilitates identifying choices that were not identified in the preparation of the interviews.

| Reporting item | Accounting choice | Study | Research method* | | |
|----------------------------|---|--------------------------------------|------------------|--------------|------|
| | | | CASE | SURV/ EXP | ARCH |
| Investments in associates | Accounting choice method for equity method instead of consolidation | Jorissen et al. (2010) | X | | |
| | Write down investments | Jorissen et al. (2010) | X | | |
| Intangible assets R&D | R&D capitalization choices - generic | Seybert (2010) | | | X |
| | Capitalize R&D expenses: what projects, timing, amount | Kepsu (2012) | X | | |
| | Write off intangible asset R&D: timing, amount | Kepsu (2012) | X | | |
| | Depreciation of intangible asset R&D: accelerate depreciation | Kepsu (2012) | X | | |
| Intangible assets Goodwill | Allocation of acquisition costs (and goodwill) | Kepsu (2012) | X | | |
| | Impairment testing of goodwill | Kepsu (2012) | X | | |
| Construction contracts | Adjust the stage of completion method for construction contracts | Kepsu (2012) | X | | |
| Inventory | Write off inventory that is known to be sold at full price (GAAP violating) | Merchant et al. (1994)/ Elias (2002) | | X | |
| | Reverse previous write off of inventory of goods | Merchant et al. (1994)/ Elias (2002) | | X | |
| Provisions - Restructuring | Restructuring provision choices -generic | Bens et al. (2009) | | | X |
| | Creating a restructuring provision | Jorissen et al. (2010) | X | | |
| Provisions -other | Creating a provision for future losses and commitments | Jorissen et al. (2010) | X | | |
| | Create a guarantee work provision and determine amount | Kepsu (2012) | X | | |
| | Determining the amount of the provision for employee bonuses | Kepsu (2012) | X | | |
| | Draw down on reserves previously set aside | Graham et al.(2005) | | X | |
| Accruals - revenue related | Book revenues now rather than next quarter (if justified in each quarter) | Graham et al.(2005) | | X | |
| Accruals - expense related | Postpone taking an accounting charge | Graham et al.(2005) | | X | |
| | No recording of supplies received in December until following February (GAAP violating) | Merchant et al. (1994)/ Elias (2002) | | X | |
| | Not recording expenses of services received until following year (GAAP violating) | Merchant et al. (1994)/ Elias (2002) | | X | |
| | Prepay next year's expenses and record them as current expenses (GAAP violating) | Merchant et al. (1994)/ Elias (2002) | | X | |
| | Request supplier's invoice after year-end (GAAP violating) | Merchant et al. (1994)/ Elias (2002) | | X | |
| Accruals - general | Timing of booking transactions | Maas et al. (2009) | | X | |
| Various | Alter accounting assumptions (allowances, pensions, etc.) | Graham et al.(2005) | | X | |
| | Classification choices of extraordinary costs | Kepsu (2012) | X | | |
| | Relabeling line items (GAAP violating) | Maas et al. (2009) | | X | |

* CASE= Case study, SURV/EXP= Survey/Experiment, ARCH= Archival

Table 7 Accounting choices identified in the literature review, categorized by reporting item

There is little research literature relating to the second research question: 'how are accounting choices made by the controller?'. The literature review revealed that financial accounting research relating to accounting choices predominantly uses the economic perspective. Research relating to the role of the controller provides other insights that can be used as a basis for analyzing their accounting choice behavior. Behavior can, for example, be based on routines and habits influenced by past experience and organizational institutions. Analyzing the behavior

of various actors within the organization from a perspective of power relations again provides other insights into controllers' behavior. The subject of how controllers make their accounting choices has not been addressed in previous research. Trying to answer this question therefore is exploratory research, 'opening the black box of the accounting choice process'.

Finally, ample literature is available as a theoretical basis for answering the third research question: 'what factors affect the accounting choices of controllers?' The factors identified can be divided in 'controller setting' factors and 'individual controller-related' factors and are summarized in Table 8. The factors identified were used as an initial framework for analysis of the data collected. It should be noted that the theoretical basis to be used for the research questions is only tentative. This theory is derived from studies that focus on other subjects (earnings management and the role of the controller). Also, the population used in these studies varies considerably. The populations studied are listed in Table 9.

Given these considerations, it may well be possible that other choices and factors emerge from the empirical data which focuses on accounting choices in general, and a research population of BU controllers (within the context of one organization).

To conclude, the literature review findings provide a basis for using a systematic approach for identifying accounting choices on the basis of reporting items in the financial statements. It also provides a tentative framework for the factors influencing these choices. On the other hand, it reveals the broad range of accounting choices available to controllers and the complexity of individual behavior.

The data collection and the initial analysis of the data was based on the findings of the literature review above. As outlined in Section 1.2 of the introduction, this was followed by an analysis of the data from another perspective: the institutional logics perspective. In Chapter 3, the theoretical background for the analysis from this perspective is presented.

| Factors | Study | Research area | Research method* | | | |
|--|---------------------------|--|------------------|------|-----|------|
| | | | INT | SURV | EXP | ARCH |
| Controller setting | | | | | | |
| External | | | | | | |
| Accounting standards | Bens et al. 2009 | Earnings management | | | | X |
| Other regulation | Bowman et al. 2003 | Earnings management | | | | X |
| Governance and audit | Bens et al. 2009 | Earnings management | | | | X |
| | Chen et al. 2012 | Earnings management | | | X | |
| Organizational | | | | | | |
| Board of directors | Osma 2008 | Earnings management | | | | X |
| | Sarkar et al. 2008 | Earnings management | | | | X |
| Ownership | Jiraporn et al. 2009 | Earnings management | | | | X |
| | Givoly et al.2010 | Earnings management | | | | X |
| Financing structure& covenants | Jha 2013 | Earnings management | | | | X |
| | Wang et al. 2013 | Earnings management | | | | X |
| Incentive compensation | Guidry et al. 1999 | Earnings management | | | | X |
| Role of controller in organization | Maas et al. 2009 | Role conflict and misreporting | X | X | | |
| Capital intensity | Zoni et al. 2007 | Involvement in decision making | | X | | |
| Operating interdependencies | Zoni et al. 2007 | Involvement in decision making | | X | | |
| Business growth | Indjejikian et al. 2006 | Organizational slack | | X | | |
| Line manager: | | | | | | |
| -Financial competence | Zoni et al. 2007 | Involvement in decision making | | X | | |
| -Knowledge&management style | Pierce et al. 2003 | Perceptions of managers and controllers | X | X | | |
| Situational | | | | | | |
| Earnings around zero | Burgstahler et al. 1997 | Earnings management | | | | X |
| Initial public offering | Ball et al. 2008 | Earnings management | | | | X |
| Change in regulation | Bens et al. 2009 | Earnings management | | | | X |
| Individual controller related | | | | | | |
| Ethical orientation | Greenfield et al. 2008 | Earnings management (cash flow choice) | | | X | |
| | Merchant 1994, Elias 2002 | Perception of earnings management activities | | X | | |
| Professional commitment | Greenfield et al. 2008 | Earnings management (cash flow choice) | | | X | |
| Personality | Hartmann et al. 2010 | Budgettary slack (machiavalism) | | | X | |
| | De Loo et al. 2006 | Behavioral patterns | X | | | |
| | Byrne et al. 2007 | Role of controller | X | | | |
| | De Loo et al. 2011 | Controller activities | | X | | |
| Experience as auditor | Bowlin et al. 2009 | reporting decisions | | | X | |
| Nr. years in financial funtion | De Loo et al. 2011 | Controller activities | | X | | |
| Industry knowledge | Hunton et al. 2000 | Rank of controllers | | X | | |
| Technical (GAAP) knowledge | Merchant 1994, Elias 2002 | Perception of earnings management activities | | X | | |
| | Hunton et al. 2000 | Rank of controllers | | X | | |
| Age | De Loo et al. 2011 | Controller activities | | X | | |
| Gender | De Loo et al. 2011 | Controller activities | | X | | |
| *INT= Interview, SURV= Survey, EXP= Experiment, ARCH= Archival | | | | | | |

Table 8 Factors that may influence accounting choices of controllers

| Study | Population researched |
|------------------------|---|
| Merchant 1994 | 200 MT members (managers, controllers) of 2 organizations and 108 members of Institute Internal Auditors |
| Elias 2002 | 763 CPA Auditor, CPA Controller, Accounting faculty members, Accounting Students |
| Maas et al. 2009 | Interviews: 48 BU controllers. survey 134 controllers of medium/large companies, members of Controllers Institute |
| Hartmann et al. 2010 | 136 students of a two year parttime executive program in finance and control |
| Greenfield et al. 2008 | 376 senior-level business students |
| Chen et al. 2012 | 171 senior corporate managers, MBA alumni |
| Bowlin et al. 2009 | 96 upper division undergraduate accounting students |
| Zoni et al. 2007 | 17 controllers, 14 CEO's |
| Pierce et al. 2003 | 11 organizations: each 1 controller, 1 productmanager, 1 sales/marketing manager |
| Indjejikan et al. 2006 | 6 firms: 104 Business Units: each 1 BU controller and 1 BU manager |
| Hunton et al. 2000 | 2,941 Certified Management Accountants in junior, senior and manager-level positions |
| De Loo et al. 2006 | 11 BU controllers, 5 controllers in various positions in organizations |
| Byrne et al. 2007 | 18 controllers and 18 operating managers |
| De Loo et al. 2011 | 251 graduates of controller's programs from 3 universities |

Table 9 Population researched of studies discussed in the literature review

3 THE PERSPECTIVE OF INSTITUTIONAL LOGICS

During the interviews with the BU controllers, one element consistently emerged; this related to *'firm behavior and setting boundaries'*. When analyzing the empirical findings, it was difficult to place this theme in the context of the accounting choices made by the BU controllers. Chua and Mahama (2012) outline three ways of using 'informing' theory in qualitative research: to provide stimulus into the research problem; to understand the field; and retrospectively, to explain field data that looks surprising, unusual or discrepant. This chapter addresses the last of these. This led to the second phase of the analysis referred to in Section 1.2: using the theoretical lense of 'institutional logics' provided a better understanding of this element of the findings.

The concept of institutional logics emerged from the broad domain of institutional theory. The purpose of this chapter is to outline the theoretical basis used for the analysis of the empirical data, and not to provide a literature review of institutional theory. Section 3.1 therefore addresses institutional theory on a global basis. This is followed by Section 3.2 which focuses on institutional logics. Finally, Section 3.3 provides a summary and outlines the use of this perspective for the analysis of the empirical findings.

3.1 INSTITUTIONAL THEORY

In his article "Never mind the gap: towards an institutional perspective on management accounting practice" Scapens (1994) signaled the difference between actual management accounting practices and theoretical 'ideals'. He introduced an institutional framework for analyzing management accounting practices. Instead of the neoclassical economic theory assuming an organization to consist of individuals behaving in an economic way, Scapens proposed "a picture of an organization comprising routine behaviors which provide a way of coping in a complex and uncertain world, and which enable individual actors to make sense of their own actions and the actions of others" (p. 312) ¹⁶

¹⁶ It should be noted that Scapens refers to the *old-institutional theory*. The term institution is used either as 'rationalized myths within a cultural context' or as 'a framework of regulatory agencies and policies'. The latter is the focus of the *new institutional theory* (Greenwood, Oliver, Sahlin, & Suddaby, 2008)

The concepts of *habits*, *routines* and *rule based behavior*, which were explained in the introduction of Section 2.3 of the previous chapter, play an important part in this institutional perspective of analysis. Scapens refers to actions of individuals that may be taken because individuals behave in a way that ‘proved to be effective in the past’. Redmond (2004), developed a ‘concept of (old institutional) rationality’ that is consistent with the institutional approach and also addressed habitual and routine behavior. He outlines a *dual mode rationality* explaining that institutional rationality requires two types of thinking: rule following and purpose seeking. Habitual or rule following behavior ‘conserves mental efforts’ which is important given the limited cognitive efforts of individuals. Rule based behavior can be a result of individual experience “if a routinized response is adequate, then habit or rule following is appropriate” (Redmond, 2004, p. 180). It can also be learned from others, “in the case of social learning, habits are acquired with mental effort but without a problem-solving type of mental activity.” (Redmond, 2004, p. 182). Accounting choices can thus be the result of rule based behavior, with the origin of this rule based behavior being in previous experiences and/or in social learning. When new situations emerge or previous behavior proves not to be appropriate, this behavior needs to be reformulated and the second mode of rationality is then applied: the purpose seeking mode involving active cognitive effort. Verstegen (2006, 2011) places management accounting in the context of dual mode rationality. He argues that the two modes have a sequential order, “in the first stage a decision room is shaped, making purpose-seeking behavior attainable in the second stage” (2011, p. 115). Reporting requirements such as GAAP and an organization’s accounting manual can be seen as determinants that shape the decision room in the first stage, the rule following mode, of the accounting choice decisions.

Returning to Scapens’ article, he explains that, “Institutions can be regarded as imposing form and social coherence upon human activity, partly through the continuing production and reproduction of habits and thought of action” (Scapens, 1994, p. 306). Scapens stresses the importance of recognizing that not only institutions influence actions, but that institutions are also the outcome of actions. Hence, institutions affect individual behavior but individual behavior can also affect institutions, and institutions can change over time. Thornton and Ocasio (2008) explain that the concept ‘institutional logics’ provides a link between institutions and action. Section 3.2 discusses the institutional logics approach.

3.2 INSTITUTIONAL LOGICS

Institutional logics are defined by Thornton and Ocasio (2008) as “the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality” (p. 101). Ezzamel, Robson and Stapleton (2012) explain that this concept is a way of understanding how actors’ selections are conditioned by specific frames of reference. Using the concept of dual mode rationality of Redmond (2004) and Verstegen (2011), institutional logics allow us to understand how the decision room of controllers is shaped in the first stage: the rule following mode.

According to Lambert and Sponem (2012), an organization’s institutional logic influences the positioning and role of controllers. Lambert and Sponem identified four styles of management accounting function, each being influenced by a different dominant institutional logic. The first style identified is *the discrete style*, relating to organizations with a dominant marketing logic. The focus within this type of organization is on innovation, differentiation and promotion. Second, *the safeguard style* relates to organizations with dominant engineers’ logic. The focus in this type of organization is then on design and research and development. Controllers in organizations with a discrete style and a safeguard style do not have much authority due to the focus of the organizations on other areas than finance. Organizations with more focus on finance revealed two other types of management accounting style; either the *partner style* or the *omnipotent style*. The partner style relates to organizations with both a marketing and a finance logic, whereas the omnipotent style relates to organizations with a short-term financial logic. Controllers in organizations with the partner style and omnipotent style have authority due to the strong focus on finance within these organizations. The dominant logic within an organization not only influences the authority of the finance function, but also the main ‘client’ of the controller. In organizations with a partner style, controllers focus on supporting the decision-making process of operational management; thus, local management is their main client. In organizations with an omnipotent style, controllers focus on global organizational control, with reporting and budgeting as important instruments, and corporate control as their main client. The different styles, the relating dominant logics, the characteristics with respect to the authority of the finance function, and the main client of the controller as identified by Lambert and Sponem are summarized in Table 10.

| Style | Dominant logic in organization | Authority Finance function | Main client of controller |
|------------|--------------------------------|----------------------------|---------------------------|
| Discrete | Marketing logic | Weak | Local |
| Safeguard | Engineers & Marketing logic | Weak | Corporate |
| Partner | Marketing & Finance logic | Strong | Local |
| Omnipotent | Short-term financial logic | Strong | Corporate |

Table 10 Controller role-style and the position within the organization based on Lambert and Sponem (2012)

Lambert and Sponem thus identified the *dominant logic* of the organizations they studied. Within organizations there are, however, multiple logics that can be identified which can comprise *competing logics*. Competing logics result in ambiguity and can create diversity in practice, as actors develop different answers to these ambiguities (Ezzamel et al., 2012; Lounsbury, 2008). Ezzamel et al. (2012) studied the effect of competing logics on budgeting practices of primary and secondary schools in the United Kingdom in a longitudinal study. Their study is interesting for the purpose of this research as it provides an analysis of practice variation based on the use of (new) logics which may also be used to explain practice variation in accounting choices. The longitudinal study was conducted between 1993 and 1999, with follow-up interviews in 2011. During that period a new logic had emerged in the educational field: the business logic. Budgets were allocated to schools on the basis of the age-profile and numbers of pupils attending a school instead of allocation on the basis of historic spending; budgeting responsibilities of the schools had also increased. The goal was to promote parental choice and competition between schools. Schools were expected to behave like enterprises. This new business logic competed with the old dominant professional and governance logic of the primary and secondary schools. Ezzamel et al. revealed that the symbolic logic of the budgeting, being business logic, was not necessarily reflected in the material practices of budgeting in the field. They describe how the budgeting practice variation between the schools they studied was shaped by the differences in meaning that the organizational actors attributed to the ambiguities resulting from the multiple and competing logics within the field. Whereas schools with a local conservative political background adopted the business logics, schools with a local labor political background were more critical and maintained a dominant governance/political logic. Thornton & Ocasio, (2008) note that institutional logics determine the allocation of attention within organizations, deciding which problems are attended to and which solutions are considered. For the subject of accounting choices, identifying the institutional logics within an organization, including competing logics and the meaning that organizational actors attribute to these competing logics, is therefore important.

Apart from the use of the concept of institutional logics in an analysis of practice variances on an organizational level, institutional logics also play a role in analyzing practice variances on an individual level. Ezzamel et al. describe this as follows, “The concept of institutional logics is a way of understanding how actors selections are conditioned by specific frames of reference that inform the sensemaking, the vocabulary of motivation, and the identities that actors bring to situations” (Ezzamel et al., 2012, pp. 283-284). Institutional logics therefore help to understand which problems get attended to and which solutions are considered both on an organizational level and on an individual level. Following this line of reasoning, the logics of the individual BU controllers is an important element in understanding the accounting choices of these BU controllers.

The prevailing institutional logics of BU controllers within one organization may vary, depending on their personal and educational background and their previous work experience. Controllers with an auditor background and the professional qualification of chartered accountant may for example have a more dominant professional accounting logic compared to controllers who started their career in a business control function after graduating with a business studies degree. The latter type of controller may have a more dominant business oriented logic.

Not only the prevailing logics of individuals can vary, also the interpretation of a (new) institutional logic within an organization or field can vary for individual actors. Lok (2010) analyzed behavior at an individual level by studying institutional investors’ reaction to the new institutional logic of ‘shareholder value’ in their professional field. He identified three different ways that investors gave meaning to this new logic, which resulted in different practices. Lok used the concept of *identity* in his analysis because “identity is thought to form an important link between institutional logics and the behavior of individuals and organizations” (Lok, 2010, p. 1305). Morales and Lambert (2013) also use the concept of identity in a study analyzing the practices of management accountants within one organization. They found that, although the management accountants all agreed on the dominant business oriented logic of the organization, they behaved in different ways in specific situations. One example was the difference in behavior of the management accountants when financial reports were revealed to be unreliable due to administrative errors. One management accountant refused to correct the data, feeling responsible for making the unreliable financial procedures transparent within the organization. Others corrected the data, feeling responsible for delivering reliable data. One

corrected only what he considered to be material amounts being important for the decision-making process of operational managers.

To summarize, the perspective of institutional logics can provide insights into both the organizational setting and professional field of BU controllers, as well as their individual behavior.

3.3 SUMMARY: THE USE OF AN INSTITUTIONAL LOGICS PERSPECTIVE

Some empirical findings were difficult to place in the context of the accounting choices made by the BU controllers. The institutional logics perspective was introduced retrospectively to explain these findings.

Institutional theory provides additional insights into accounting choice behavior of controllers as it provides a theoretical basis for analyzing how the decision room of controller is shaped and how controllers identify accounting choices. Due to rule based behavior, some controllers may, for example, not identify an accounting choice where other controllers do identify a choice.

The use of an institutional logics perspective provides additional insights into the setting of BU controllers by identifying which logics play a role in the organizational setting. Moreover, at an individual level, the prevailing logics of the BU controller and their interpretation of dominant logics within their organization and professional field can provide insights into their accounting choice behavior.

Using the institutional logics perspective enabled an explanation of the empirical findings. The process of analysis is further described in Chapter 4 together with the methodology of this study.

4 METHODOLOGY

This chapter outlines the research methodology used. The first section reflects on the philosophical assumptions and the implications for this study. The second section describes the research domain and the data collection process. The third section explains how the data were analyzed. In the last section, the issue of translation is discussed since the data were collected in Dutch, and this thesis is written in English.

4.1 PHILOSOPHICAL ASSUMPTIONS AND IMPLICATIONS FOR RESEARCH

4.1.1 Reflection on philosophical assumptions

The use of philosophical approaches in accounting has been subject of discussion for many years. Chua (1986), in her article 'Radical Developments in Accounting Thought', concluded that mainstream accounting research uses the positivist perspective and that research using the interpretive and critical perspective enriches the knowledge of accounting. Almost twenty-five years later, mainstream accounting still appears to be based on the positivist perspective and an increasing narrowness of accounting research is signaled (Knoops, 2010; Lukka, 2010; Malmi, 2010). Researchers with a positivist perspective believe that there is a 'reality' external to social actors which can be researched by observing this reality. This view on reality is called objectivism. Research based on this approach focuses on the formation of theories. Saunders, Lewis and Thornhill (2009) refer to this as the focus on 'law-like generalizations'.

Besides the abovementioned mainstream accounting research there is, however, a growing body of research with another philosophical approach: the interpretive approach. This type of accounting research is often characterized as 'non-mainstream' or 'alternative' (Ahrens et al., 2008). In contrast to the objectivist view on reality of researchers of the positivist perspective, the underlying view on reality of researchers with an interpretive approach is subjective. No external reality independent of the social actors is thought to exist, but phenomena are created from the perceptions and actions of the social actors. In interpretive research, the 'lived experience of the reality' of individuals or groups of individuals is the object of research (Sandberg, 2005).

This study is based on an *interpretive approach*. When using an interpretive approach, the criteria for assessing validity and reliability of research used in a positivist perspective are not

applicable due to the above-mentioned differences in assumptions. The question is, therefore, how can knowledge be justified when using an interpretive approach? Siti-Nabiha (2009) reflects on this in her article “Sensemaking in interpretive management accounting research: constructing a credible account”. She provides a rich *and* recognizable description of her data-analysis process of a 5-year longitudinal study. Sandberg (2005) addresses the same subject and proposes criteria that can be applied to justify the knowledge produced within interpretive research. In this research ‘measures of justification’ have been taken. This is further outlined in Section 4.1.3.

The second section of Chapter 1 is titled ‘a journey of discovery’. This reflects the process that the researcher went through during this research process. In this context, it should be noted that Shapiro’s (1997) line of reasoning as referred to in Section 2.1 has a strong appeal to the researcher. Accounting standards can be seen as a commonly agreed upon socially constructed reality. During the data analysis phase, the researcher became aware that the initial approach was based on accounting choice behavior from an economic perspective. This led to an initial theoretical basis and analysis that did not fully explain the findings. Therefore, the itinerary of the original research route was changed to include an institutional perspective. This process is further described in Section 4.3.4.

In Section 4.1.2 this study is positioned in the field of financial accounting research and the chosen research method is explained.

4.1.2 Positioning of research in the field

Within accounting research, earnings management research is one of the most popular mainstream research topics (Merchant, 2010). This type of research predominantly focuses on identifying the relation between factors of influence and the final accounting choice, rather than on the accounting choice process itself.

The objective of this research is not only to obtain insights into the final accounting choices of controllers and the factors influencing these choices, but foremostly to understand *how* these choices are made. Therefore, the accounting choice process itself is an important element of this study. Research methods such as archival research or questionnaires, which are predominantly used in mainstream financial accounting research, are not suited to addressing this subject. In order to obtain insights into how controllers make their choices, and to gain an understanding of their perceptions and actions, a qualitative approach was chosen. Controllers

are believed to work in a complex setting and in a world where phenomena are created from the perceptions and actions of the social actors. The research method chosen - using different types of information sources for the preparation of the interviews and interviewing controllers individually as well as in a group session - enabled the collection of rich data that describes the perceptions and actions of the controllers within their complex setting. The purpose of this study is not only to understand the accounting choice process but also to make an interpretation of these findings in the light of the outcomes of previous research. In their article "Straddling between paradigms" Kakkuri, Lukka and Kuorikoski (2008) address the use of both the 'understanding' and 'interpretation' concept within one study, and conclude that these concepts can co-exist within one study.

As outlined in Section 4.1, the underlying philosophy of this study is interpretive. Transparency of the data collection method and the analysis phase is of great importance, since research is not believed to be value-free. This chapter, therefore, takes the reader along with the researcher's considerations throughout the process of data collection and analysis in order to make the process as transparent as possible. Section 4.1.3 describes the 'measures of justification' and the critical reflection of the findings.

4.1.3 Justification of research results

Sandberg (2005) proposed criteria for justifying research results with an interpretive approach: communicative validity, pragmatic validity, transgressive validity, and 'reliability as interpretive awareness'. *Communicative validity* relates to the understanding of the lived experience of the participants of the research. *Pragmatic validity* relates to ensuring that participants describe their lived experience accurately. In other words: does their behavior reflect their account of their lived experience? *Transgressive validity* addresses the risk that the researcher – in search of communicative and pragmatic validity – will overlook ambiguities and complexities in the lived experiences. Finally, *reliability as interpretive awareness* relates to how the researcher addresses his/her awareness of the subjectivity in the research. The general measures addressing these criteria are discussed below.

First, the two supervisors involved in the research and analysis phase each assumed a different role. One supervisor performed the role of 'critical reflector'. The supervisor, hereafter referred to as 'Supervisor 1', listened to all the interviews and performed an independent analysis of the data, which was used to critically reflect on the findings of the researcher. The role of

Supervisor 1 addresses the criteria *communicative validity* as well as the *reliability as interpretive awareness*. The role of Supervisor 1 is outlined in the individual sections of this chapter. The other supervisor, hereafter referred to as ‘Supervisor 2’, was not involved in the research details, but reviewed the overall process and analysis. During the last phase of the research - the writing of the thesis - Supervisor 2 was no longer involved due to specific circumstances. A new supervisor, hereafter referred to as Supervisor 3, was involved in the final stage. Supervisor 3 performed an overall review of the thesis and the research material documented by the researcher. The roles of Supervisor 2 and 3 address the *transgressive validity* as well as the *reliability as interpretive awareness*, by analyzing and critically reflecting on the overall process.

Second, gathering information from different sources and probing interviewees on why they had not made alternative accounting choices was used to address the criteria of *pragmatic validity*. The final outcome of the accounting choice and (parts of) the context could be verified using this approach. The controller deliberations which proved to be an important aspect in the process are, however, difficult to verify. Details about the measures taken in this context are further addressed in Section 4.2 with respect to the data collection process, and at the end of Section 4.3.4, outlining the limitations of ensuring the pragmatic validity.

Third, the data were analyzed using an iterative approach. A ‘community of interpretation’ was created by the participants of the group discussions. The outcomes of these discussions were used as input for further analysis and functioned as a means to ensure the *communicative validity*. After the first analysis – based on the individual interviews – the findings were presented to a group of controllers who had been interviewed. On the basis of the outcome of this group session, the analysis was further refined and presented on a more general level to corporate finance staff within the organization. This analysis also addressed the *transgressive validity* since ‘all the empirical data had to fit’. The data analysis process is described in detail in Section 4.3.

Finally, the researcher was, throughout the process, focused on what Sandberg (2005)¹⁷ refers to as the ‘perspectival subjectivity’. He explains that researchers who exercise perspectival subjectivity are aware of the influence of their perspective on the interpretation and he

¹⁷ Kvale (as cited in Sandberg, 2005) introduced the concepts of ‘biased subjectivity’ and ‘perspectival subjectivity’.

contrasts this with 'biased subjectivity' where the researcher selectively uses statements that support their own conclusions. Siti-Nabiha (2009) strikingly describes the continuous questioning of interpretation of findings in her article. Both Sandberg and Siti-Nabiha conclude that, when using this awareness, interpretation is a strength rather than a weakness in presenting reliable results. In a way, the journey of this research and the change of itinerary reflect Sandberg's criteria *reliability as interpretive awareness*.

The research material was documented ensuring a 'research trail' from the beginning of data collection until the final thesis. Not only the research data gathered – audio recordings of interviews, management reports and other material - were documented, but also a record was kept of the meetings with the supervisors. After each meeting, a short memo was written with the items discussed and the follow-up actions agreed upon. In the final stage of analysis, these meetings were audio recorded. The documentation of these meetings form part of the research trail.

In Section 4.2, the data collection process is further discussed.

4.2 DOMAIN OF RESEARCH AND DATA COLLECTION PROCESS

As outlined in Section 2.1, the unit of analysis of this study is the BU controller. For this research it was important to involve BU controllers who were interested in cooperating and willing to openly communicate about the subject. Insights into the financial statements and management reports of the Business Units, enabling the identification of accounting choices to be discussed with the BU controller, would also enrich the research. Based on these considerations it was decided to conduct the research within an organization where the researcher was employed at the time of the research, and was therefore allowed to access the financial statements and management reports, and where finance staff and controllers were enthusiastic about participating in the research. The organization involved is a Dutch company in the service industry offering a wide range of (mainly) consumer products and services. The organization consists of various legal entities, encompassing an association (for the non-profit activities), limited companies (for the insurance activities), and private companies (for other commercial activities). The organization involved is not a quoted company, where financial analysts and investors are important stakeholders that influence reporting behavior. Instead, the organization involved is confronted with a variety of stakeholders; this is further described in

Chapter 5, Section 5.1.1. At the time of research, 21 controllers worked in a function that matched the above definition of BU controller. The planned period for data collection was spring and summer 2012. Therefore it was decided to analyze accounting choices made for the year-end 2011. Since this study has an explorative character and the purpose of the research is to understand how controllers make their accounting decisions, the main data collection method used was in-depth interviews with the controllers. The two steps performed in order to prepare the interviews are described below.

First, the financial statements specified per Business Unit (BU) and the BU management reports of the year-end 2011 were collected by the researcher to analyze the available accounting choices for the controller. A corporate staff report listing the issues mentioned in the 'Letter of Representation' of the individual BUs was analyzed to identify any additional specific issues to be discussed during the interview. Every year-end, the BU controller and the BU manager have to sign a 'Letter of Representation' in which they confirm that the BU financial statements are in accordance with GAAP and the organization's accounting instructions, that internal controls are functioning, and that the board of directors is fully informed of outstanding issues that could affect the financial statements. This action can be viewed as the BU controller taking responsibility for the accounting decisions incurred. The management reports of the first quarter of 2012 were also collected and used to identify any follow-up issues that resulted from the accounting choices at the year-end. Second, a pre-questionnaire (Appendix 1) was sent to each controller with the request to return this before the interview. This provided additional information on the controller's background and BU setting, but it also triggered the controller to think about the subject before the interview. The pre-questionnaire was sent to 17 BU controllers and returned by 14. Due to the short period before making the appointment and the actual interview, one BU controller was not asked to fill out the pre-questionnaire.

The data collected from the two steps described above was used to customize the interview guide for the BU controller. The standard interview guide is included in Appendix 2. After two interviews, a 'natural flow' of questions emerged that worked well in generating the discussion about the accounting choices. In general the interview started with the BU controller explaining the setting; talking about the BU manager and others involved in the reporting process. Then the accounting choices as indicated by the BU controller in the pre-questionnaire were discussed, and whether management reports or financial statements indicated other items then

those brought up by the interviewee. At the end of the interview, a number of specific questions were asked relating to factors of influence identified in the literature. Controllers were asked how, in their opinion, these factors influenced their accounting choices. They were also asked if other factors influenced their accounting choices. In total, 18 BU controllers were interviewed. After these 18 interviews it was felt that additional interviews with BU controllers would not provide any new insights.

After the interview, a 'post-questionnaire' was sent to the interviewees. This post-questionnaire consisted of 39 questions relating to professional commitment, ethical orientation, and personal characteristics. The purpose of this questionnaire was not for statistical analysis, but to obtain additional information that might be useful for further discussion in the group sessions. Appendix 3 provides further details of the post-questionnaire.

In addition to interviews with the BU controllers, 3 interviews were held with corporate finance staff. These were also involved in accounting choices, albeit at a corporate level and in a position of reviewing rather than making the accounting decisions. Reviewing accounting choices and providing feedback to the controllers can also be viewed as a decision relating to accounting choices. Therefore this was also considered to be valuable research input. These interviews were held after the interviews of the BU Controllers had taken place. In preparation for these interviews, the same pre-questionnaire used for the BU controllers was sent to these interviewees, as the returned pre-questionnaire had proved to be a good facilitator for conducting the BU controller interviews. All 3 corporate finance staff interviewees returned the pre-questionnaire. The structure of the interview held with the corporate finance staff was the same as the interviews with the BU controllers. The accounting choices discussed consisted of the material accounting choices that were reviewed at corporate level.

Most interviews with BU controllers and corporate finance staff took approximately one hour, with a recording time of approximately 55 minutes following the introduction. The shortest interview was 40 minutes (33 minutes recording time) and the longest interview 1 hour and 50 minutes (1 hour and 40 minutes recording time). All interviews were audio recorded. It was felt that video recording the interviews might prevent the interviewees from openly discussing the subject, and that an audio recorder would be 'less dominantly present'. The audio recordings were imported in NVIVO and fully transcribed. All interviews were held by the researcher.

In order to ensure a critical reflection on the researcher's data gathering, Supervisor 1 listened to all the audio recordings of the interviews. The supervisor provided feedback on the interview process. The supervisor noted for example that, during the first two interviews, some choices were implicitly agreed as being 'obvious' between researcher and interviewee and no background information or underlying details were provided. Suggestions made by the supervisor were followed-up in the following interviews. The data gathered for the first phase of analysis are summarized in Table 11.

| Period of data collection | Source of information phase 1 | Specifics and recorded time | Role researcher | Role supervisor 1 |
|---------------------------|--|-------------------------------|---------------------------|--------------------------------|
| First half year 2012 | Financial Statements specified per BU | | Preparation for interview | |
| | BU Management Reports Year-end 2011 | | Preparation for interview | |
| | Summary of BU LOR issues reported 2011 | | Preparation for interview | |
| | BU Management Report Q1 2012 | | Preparation for interview | |
| March-July 2012 | Prequestionnaires | 20 sent, 17 returned | Preparation for interview | |
| March-July 2012 | Interviews BU Controllers | 18 interviews - 16 hrs 22 min | Interviewer | Listen to full audio recording |
| March-July 2012 | Postquestionnaires | 18 sent, 16 returned | Additional info | |
| July-August 2012 | Interviews Corporate Staff | 3 interviews - 2 hrs 23 min | Interviewer | Listen to full audio recording |

Table 11 Data collected phase 1

A second important source of data for this study was the data gathered from presenting the overall findings at group sessions with a number of interviewees. This material was presented at two sessions. Unlike the first phase, where the outcome of previous interviews did not (consciously) affect the subsequent interviews, the data generated by the first presentation session was analyzed immediately and used as input for the next session. The sessions were planned in the following order:

- BU controllers – group discussion with 6 BU controllers;
- corporate finance staff – group discussion with 3 corporate finance staff members.

This was done in order to be able to present an increasingly abstract view of the findings and to enable contextualizing the findings from BU controller level to an organizational level.

The BU controllers and corporate finance staff group discussions were attended by the researcher as well as Supervisor 1 and Supervisor 2. The researcher was the discussion leader, one supervisor helped the researcher manage the process of the discussion, and the other supervisor was the 'observer'. One follow-up interview was performed with an interviewee who

was going to participate in a group session, but had to cancel at the last moment. The supervisors did not attend this session. The group discussion with the BU controllers and corporate finance staff were video recorded. All sessions were fully transcribed.

Silverman (2011) discusses the usefulness of respondent validation and argues that it can be valuable as another source of data rather than being used as validation. The group sessions and individual follow-up interviews were used for both purposes. Participants were asked if they recognized their findings and what their perspective was on the findings. Apart from using the group sessions for validation purposes, the data generated from these sessions were also used to contextualize the findings. The data gathered for the second phase of analysis are summarized in Table 12.

| Date | Source of information phase 2 | Specifics and recorded time | Role researcher | Role supervisor 1 | Role supervisor 2 |
|-----------|----------------------------------|------------------------------|-------------------|--------------------------------|---------------------|
| 2-Sept-13 | Group Session BU Controllers | 6 participants – 1 hr 31 min | Discussion leader | Observer | Process facilitator |
| 1-Oct-13 | Group Session Corporate Staff | 3 participants – 1 hr 16 min | Discussion leader | Process facilitator | Observer |
| 25-Oct-13 | Individual session BU Controller | 57 min | Interviewer | Listen to full audio recording | |

Table 12 Data collected phase 2

The analysis of the data is further outlined in Section 4.3.

4.3 DATA ANALYSIS

4.3.1 Introduction

The data analysis of the first phase was performed in a number of stages:

- Analysis of factors of influence on accounting decisions;
- Analysis of the accounting choices incurred;
- Analysis of the relation between factors of influence and the accounting choices;
- Constructing the overall findings from the analysis above.

Supervisor 1, who listened to all the audio recordings, also independently analyzed the data. The outcome of this independent analysis was used to critically reflect on the analysis of the researcher. This process is further discussed in Section 4.3.2.

The second phase of data gathering consisted of presenting the overall findings in sessions with BU controllers and corporate finance staff. The process of data analyses of these sessions is described in Section 4.3.3. The findings could not be fully explained by previous research relating to earnings management and the role of the controller. A new or more global

perspective was used to come to an overall analysis. This process is described in Section 4.3.4. Finally, Section 4.3.5 addresses the translation of the data, since the data collected consisted of written and audio material in Dutch, and the findings are reported in English.

4.3.2 Data analysis of the individual interviews

The initial analysis of the interview data was a content analysis identifying *factors of influence* on accounting choices. A coding list of the factors identified in the literature review (Table 8, Section 2.6) was the starting point for the codes used and any factors/concepts that emerged from the interviews were added as new codes. This resulted in a first overview of factors that affect accounting choices of controllers. The overview was critically reviewed and adjusted by comparing the outcome of the researcher to the notes of Supervisor 1. The coding was recorded in NVIVO. The researcher then prepared, on the basis of the factors identified, a first draft of an 'overall analysis of factors of influence'. After this analysis researcher recoded the content, as she felt that the initial coding process was not structured enough. The differences between the two coding efforts were analyzed and the results were discussed with both supervisors. Based on this new database, the 'overall analysis of factors of influence' was further elaborated and refined.

The next step was to identify and analyze the *accounting choices* incurred. Initially the accounting choices were stored on an MS-Excel spreadsheet, noting the BU controller, the type of choice and the comments relating to that choice. An accounting choice process consisting of different categories of activities emerged from this analysis. The accounting choice activities were also coded in NVIVO, and the accounting choice process was added to the analysis and discussed with the supervisors.

The last step was to relate the identified factors of influence to the identified accounting choices and analyze the deliberations of the controller when making the accounting choices. The full data details in NVIVO and MS-Excel were provided to Supervisor 1. Both the researcher and Supervisor 1 analyzed the data for patterns in the identified factors and the accounting choices incurred. However, both the researcher and Supervisor 1 found no resulting patterns. The outcome of the post-questionnaire relating to personal characteristics also did not reveal

patterns when analyzed in combination with the accounting choices of the controllers.¹⁸ Each accounting choice seemed to be unique with its own setting. Moreover, there was one factor/phenomenon which was labeled 'firm behavior and setting boundaries' that recurred in almost every interview. Both researcher and Supervisor 1 could not place this phenomenon in the overall analysis that resulted from studying the individual accounting choices.

The available findings of this first phase were documented in a detailed 'memorandum of findings' which formed the basis for a presentation prepared for a group discussion with the BU controllers. It was hoped that feedback from the participants of the group discussion would provide a new perspective on this phenomenon. The group sessions are further discussed in Section 4.3.3.

4.3.3 Group feedback sessions and data analysis of feed back

A presentation was prepared for the first group discussion with the controllers in September 2013. The set-up of the discussion was as follows:

1. Factors of influence – a proposition was made and feedback asked;
2. Accounting choice process – a proposition was made and feedback asked;
3. The relation factors of influence and accounting choice - an open discussion.

During the group discussion, one supervisor helped the researcher with the group discussion process and one supervisor functioned as observer. The latter provided the researcher with the observation notes. After the group discussion, the researcher talked with the participants individually and informally, and inquired what they thought of the discussion. This was done in order to establish if there were specific issues that had not been mentioned due to the group process. The discussion was recorded on video and fully transcribed. A short note of the findings of the individual informal talks after the discussion was also documented. Both the researcher and the observer-supervisor independently analyzed the video. After analyzing the new data, both the researcher and the supervisor concluded that these data could be used to further refine the findings, but that they did not offer a new perspective on the phenomenon 'firm behavior and setting boundaries' and related accounting choices. Most of the findings presented in the group discussion were recognized and confirmed by the BU Controllers.

¹⁸ Although the outcome of the post questionnaire was for this reason not used as a basis for further discussion in the group sessions it was decided to include this in the appendix since it was part of the total data collected.

The outcome of the group discussion was included in the overall findings, and served as a basis for the group interview with the three corporate finance staff members held in October 2013. A sheet with the identified accounting choice process was first handed out and discussed.

Subsequently, the factors of influence and accounting choices were discussed while going through the activities of the accounting choice process. The set-up of this group discussion was the same as the previous session, with one supervisor acting as process-facilitator and the other as observer. The observer provided the researcher with the observation notes and independently analyzed the data. The discussion was recorded on video and fully transcribed.

At the end of October 2013, a follow-up interview with one other controller was performed on the same basis as the corporate finance staff interview. This controller was initially included in the staff member group interview, but had to leave after five minutes to join a board of directors meeting. The reason not to include this controller in the controller group discussion was that 3 of 6 BU controllers in the group discussion reported directly or indirectly to this controller. This interview was audio-recorded and fully transcribed.

The data resulting from the session with the corporate finance staff provided a new perspective on the findings: it revealed a tension between corporate expectations relating to the role of controller and the actual role implementation by BU controllers, which is affected by the complex setting that controllers work in. This new perspective was used in the last phase of the analysis, described in section 4.3.4.

4.3.4 Analyzing the findings from a broader perspective

With the above-mentioned new perspective, it was decided that using a broader theoretical perspective might allow a better understanding of the findings, rather than trying to immediately place them in the context of extant research relating to earnings management and the role of the controller as outlined in the literature review in Chapter 2 which had served as a basis for gathering data and the initial analysis. The perspective of institutional logics (hereafter referred to as 'logics'), addressed in Chapter 3, was used to further analyze the findings.

After rewriting the findings several times, including the 'logics' perspective and analyzing the findings from a broader perspective, the aim was to design an overall framework which could be used for representing the findings and would do justice to the complexity of real life accounting choices. Designing this overall framework was a long iterative process with numerous versions. As outlined in Section 4.1.1, Siti-Nabiha (2009) reflects on this process.

When discussing developing a pattern model, she explains that a pattern can be considered as being “correct” when the evidence easily falls into place, new evidence can be fitted into that pattern, and it is difficult to imagine an alternative explanation that manages to include the same themes. These ‘criteria’ can also be applied to the overall explanatory framework of this research. The final version of the overall framework, which is included in the thesis, meets these criteria. In Section 5.5, illustrations are provided with accounting choices derived from the empirical data, using the explanatory overall framework as a basis for analysis.

The overall framework includes the accounting choice process, the final accounting choices and the components influencing the accounting choices. These components are not all at the same level. First, it comprises the actors involved, where behavioral aspects influence the accounting decisions. Second it comprises the other characteristics of the BU-controller’s working field that influence the accounting decisions, such as the size of the BU and the situational circumstances. Finally the different ‘logics’ used within the organization also influence accounting choices. It should be noted that the analysis from the ‘logics’ perspective is performed on a high-level basis and therefore only provides a global overview since the method for analyzing the data has been a thematic analysis and not a discourse analysis. Using discourse analysis on the data for an intensive analysis of this aspect would be an interesting follow-up study.

Central to the overall framework are the controller’s deliberations in making their accounting choices. By analyzing these deliberations, controller’s characteristics were identified that influence the accounting choices they made. It should be noted that it was not possible to follow-up or check that the controllers also really made their choice on the basis of these deliberations as the researcher had to rely on their explanation of their choice based on hindsight. Using an observer method would have been better for this purpose, since the data gathered would then be ‘closer’ to the controller’s real behavior. This method, however, is not easy to operationalize as decisions take place at various stages. This involves various moments in time which are mostly not specifically planned. Trying to identify specific choices where the observer method could be applied and then using this method to analyze these choices would be an interesting area for further research. By using different sources of information such as management reports and letters of representation, and because the researcher could follow up the effects of the choices after year-end and had substantial knowledge of the available accounting choices within the organization, the data gathered was nevertheless very rich.

4.4 TRANSLATION OF DATA

The data were collected by performing the interviews and the group sessions in Dutch; the reporting, however, is in English. Interviewees and the interviewer (researcher) did not always use straightforward sentences; sometimes they did not finish their sentence, etc. In translating the text, it was aimed to reflect the interviewees' original statements as much as possible. The translations of the quotes were reviewed by a native English speaker with a finance background.

Translating the data into English introduces another subjective element, as words cannot always be literally translated but have to be translated within their context. Decisions relating to this context are subjective. As it was felt that it was important to be transparent about the translation of the quotes, it was decided to present the quotes in both languages.

5 FINDINGS

The general setting in which the BU controllers work is described in the first section. The structure of the next sections follows the order of the research questions that were identified earlier; *‘to obtain insights into the accounting choices of controllers by studying the accounting choices available to them, the accounting choice decision process which leads to the accounting choices of the controllers, and the factors affecting these choices’*:

1. What accounting choices are available to controllers?
2. How are accounting choices made by the controller?
3. What factors affect the accounting choices of controllers?

The research findings reveal that the process of making accounting choices is not straightforward. The setting in which controllers work is complex and is different for every BU controller, with different actors and factors affecting their choices. Therefore, this chapter first provides an introductory overview to enable the reader to place the separate sections in an overall context. One interviewee strikingly formulated the complexity of the accounting choice process during a group session:

“Your diary doesn’t tell you on Monday morning at 9 o’clock: make a choice now relating to this or that eh... external reporting issue. That’s something that... especially for major decisions, starts and develops and then you or someone else thinks of three options and then you think of a fourth one or someone else thinks of a fourth one. And then you think: Ah, that’s also a way of looking at it. And in that process you have to realize that at a certain moment that you are involved in it and identify which different interests are involved ... and you have to define your own boundary.”

“Op maandagochtend om 9 uur staat niet in je agenda: maak nu een keuze om die en die eh... verslagleggingsding. Dat is iets wat... zeker de wat grotere dingen, dat begint en dat speelt dan en dat ontwikkelt zich en dan heb je zelf of iemand anders heeft drie opties bedacht en jij bedenkt er de vierde bij of iemand anders bedenkt die vierde erbij. En dan denk je: O zo kan ik er ook tegenaan kijken. En in dat proces moet je op een gegeven moment onderkennen dat je daar in zit en welke belangen er van verschillende dingen... en je eigen grens trekken.”

Accounting choices are the result of BU controllers' deliberations which evolve over time. The accounting choice process is not a straightforward sequential process with different phases but rather a 'chaotic' process with the BU controllers' deliberations playing an important role. In this process, various review and analysis activities are performed by the BU controller and administrative staff in order to support the accounting choice decision. Four categories of activities were identified, each with specific characteristics relating to the type of data used and the level of analysis. Although these activities are not necessarily sequential, there is a logical flow. The categories of activities identified are: the operational review, financial review, valuation review and overall review. Although the accounting choice process is complicated, the final accounting choice is basically very straightforward: the BU controller can decide either to do nothing or to make an adjustment. It was noted that BU controllers not only make accounting choices, but also other choices that affect the financial outcome. These choices not only involve the timing of purchases/sales and hedging transactions, but also the change of operating systems and/or processes and the change of customer payment conditions.

There was no relation found between individual factors of influence and the accounting choices incurred. The mix of corporate- and BU specific factors, as well as the situational factors identified, were different for each BU Controller. Due to different business activities, BU controllers were confronted with different types of accounting choices, and sometimes different stakeholders were also involved. In some cases, specific BU situations, such as a restructuring program, also had an impact on the type of the accounting choices and the accounting choices incurred. Moreover, BU management characteristics also affected the accounting choice process. It was this unique setting for each BU controller that influenced the accounting choices rather than one specific factor. The individual BU controller-related factors also play an important role. Two controller styles emerged from the analysis: the financial accounting style and the management control style. These different controller styles result in different accounting choices. Additionally, technical knowledge, interpretation of the accounting rules, as well as personal characteristics affect the accounting choices. Finally, the accounting choices are also influenced by the 'professional logic' of BU controllers. This professional logic emerged from the analysis as a recurring theme addressed by the BU controllers in their individual interviews. BU controllers made their accounting choices at BU level, and had to be firm and determined at BU level to guard the boundaries. Furthermore, the

findings revealed that the logic used by corporate finance staff partially competed with their professional logic. Corporate finance staff expected BU controllers to be independent and professional, but also to communicate their accounting choices to corporate finance staff, and to be transparent about the decision making process. This competing logic was labelled 'corporate staff logic'. The professional logic was dominant.

The findings are summarized as follows:

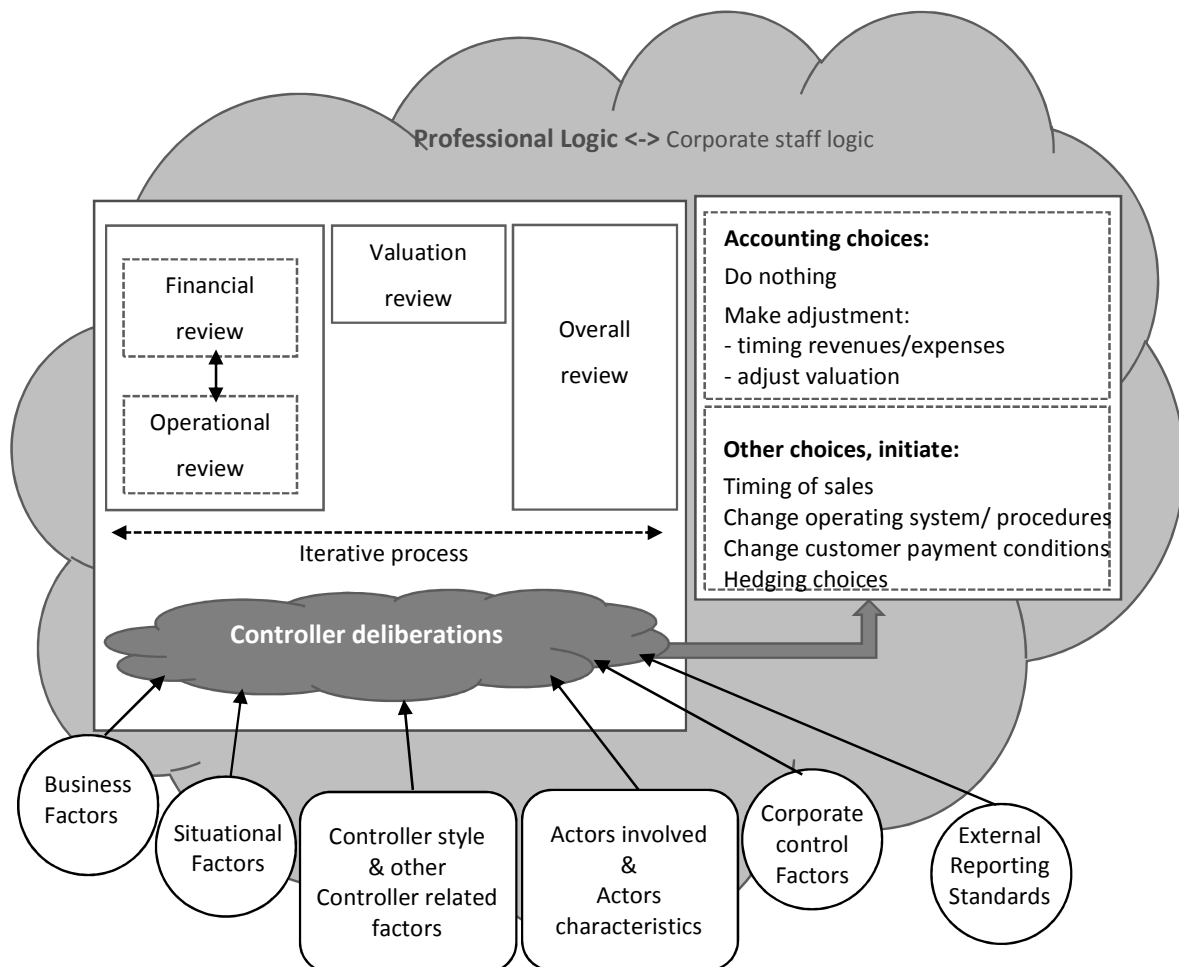


Figure 4 Accounting choices of BU controllers – Analytical framework

The structure of this chapter is as follows. In Section 5.1, the general setting of the BU controllers is presented. This includes a description of the organization involved, the reporting procedures and the role of the controller within the organization. The logics used within the organization are also presented in this section. The accounting choices and the accounting choice process identified are described in Section 5.2. Section 5.3 analyzes the controller

characteristics and controller styles identified. Section 5.4 analyzes the other actors and factors that impact the accounting choices of controllers. Finally, in Section 5.5 the complexity of the accounting choice process and the combinations of factors affecting the accounting choices are illustrated by describing BU controller deliberations relating to three subjects: the provision for doubtful debtors, the timing of revenues and expenses, and the deliberations relating to a provision for obsolete inventory.

5.1 THE GENERAL SETTING

5.1.1 The organization, the stakeholders and the reporting procedures

As outlined in the methodology chapter, the organization where the research was conducted is a Dutch company in the service industry offering a wide range of (mainly) consumer products and services. The data were collected in 2012, with follow up group discussions in 2013. The general setting is described according to the situation at the time of data collection. The organizational structure consists of a number of divisions, each encompassing various Business Units. Each organizational entity is supported by a controller. The job title of these controllers varies from Business Controller to Finance Director, depending on the size of the organizational entity and its position within the organization. All these job titles do, however, meet the criterion of Business Unit controller as defined in Chapter 2. They support an entity that has its own general manager who is responsible for the business activities of this entity. Periodic budgets and monthly financial statements are prepared for these entities. All controllers are hereafter referred to as 'BU Controller'. The BU controllers have a hierarchical relation with their Finance superior and a functional relation with the Business Unit manager.

The financial statements of the organization are prepared according to the Dutch GAAP. Besides the publication of the annual statutory financial accounts, the organization also has to comply with other external reporting requirements. For its insurance activities, it has to comply with the financial regulatory requirements and report on a quarterly basis to the Dutch central bank (De Nederlandsche Bank). For its travel activities, the organization is a member of transport and travel associations that require, on a yearly basis, specific audited financial reports of the legal entities in charge of these travel activities. For its association activities, the budget is approved at a general meeting with delegates of members of the association held at the beginning of the year. After year end, the financial statements are presented to this delegation for their

approval. The annual accounts and other external reports are prepared by corporate reporting staff. Business Units have to report on a monthly basis to corporate control, using a standard report format, on the tenth working day after month-end. Journal entries can be processed until the fifth working day after the month-end. A corporate accounting manual provides additional guidance for the GAAP standards, such as categories of fixed assets and their depreciation periods and guidelines relating to goodwill. For specific accounting issues such as intercompany accounting and accounting for software development, additional instructions have been prepared by corporate reporting staff.

For the month-end October and December, more information is requested from the BU Controllers. Besides the monthly management report, supporting documents have to be provided to corporate reporting staff for the preparation of the external audit. These supporting documents consist of accounting memos prepared by the BU controller explaining the calculation of provisions (such as provisions for obsolete inventory) or other material accounting adjustments. Moreover, a 'Letter of Representation' - as referred to in the Methodology section - has to be signed by the BU controller and the BU manager, confirming that the BU financial statements are in accordance with GAAP and the organization's accounting instructions, that internal controls are functioning, and that the board of directors has been fully informed of outstanding issues that could affect the financial statements. The BU administration also provides details such as subledger reconciliations and specifications of general ledger accounts. Corporate reporting staff perform a preliminary review of the documentation, and then provide this to the external auditors.¹⁹ Based on the October close, the auditor performs a so-called 'hard close' which serves as a basis for the year-end close. Important issues and potential weaknesses can be identified that require extra attention in the last months of the year in order to ensure a fast year-end close. In the February following the year-end, the audit is completed and the financial statements are finalized.

Finally it should be noted that the organization is made up of various legal entities and has specific characteristics relating to ownership. The overall organization is an association. This association provides nonprofit services relating to travel and mobility to its members. The nonprofit activities for the association are carried out by a private limited company which

¹⁹ The BU Letter of representation is only used for internal purposes.

receives a management fee from the association for these activities. This private limited company also provides commercial services and products in the areas of recreation, tourism and mobility to customers, who are not necessarily association members. The commercial activities related to insurance are carried out by a public limited company as insurance is subject to special regulatory requirements. Therefore, depending on the activities performed, the business units have different stakeholders, resulting in different external and internal dynamics. The influence of these different stakeholders on the accounting choices is discussed in Chapter 5.4.

5.1.2 Dominant logics in the accounting choice process

The findings revealed that the deliberations of BU controllers in the accounting choice process are not only affected by various actors and factors, but also that the underlying ‘logics’ of BU controllers influence their choices. BU controllers legitimated their accounting choices by using a ‘logic’ relating to their professional role. When discussing the accounting choices of BU controllers, corporate finance staff expressed specific expectations relating to their accounting choice process. These expectations partly diverged from the logic used by the BU controllers. Corporate staff expectations are further discussed in Section 5.1.3. This section discusses the dominant logic within the organization relating to the professional role of BU controllers.

During the interviews with the BU controllers, there was one element that consistently emerged; this related to ‘*firm behavior and setting boundaries*’. BU controllers felt that they had to have a strong character and had to be firm and determined in setting boundaries. Some controllers mentioned this explicitly when they were asked how their personality affected the decision-making:

[BUC2] “Well, I think you have to be strong and confident and sometimes you have to put your foot down. Especially given the pressure from the business: we want to present good results. Of course that’s desirable, however the desirable results are not always those that I present.”

[BUC2] “Nou, ik vind dat je soms sterk in je schoenen moet staan, dat je ook je poot stijf moet houden, zeker ook de druk vanuit de business, we willen goede resultaten laten zien. Dat is natuurlijk altijd wenselijk, maar de gewenste resultaten zijn niet altijd de resultaten die ik presenteer.”

[BUC4] “I think, in that respect, that you have to be firm. Because if you say, well maybe we can do this in a specific eh..... if you give some leeway then..... you have to say,: “No I won’t do it that way.”

[BUC4] “Ik denk inderdaad in die zin dat je wel standvastig moet zijn. Want als je dan zegt goh, nou misschien eh.... kunnen we het op een bepaalde manier... Als je de deur een beetje half open zet dan eh.... Je moet wel zeggen: “Nee dat doe ik niet.”

This determination and firmness also emerged from the way that some accounting choices were described by BU controllers. Below, two BU controllers talk about refusing a request from their BU manager to accelerate the accounting for expenses for goods/services that would be delivered/rendered the next year:

[BUC9] “By doing so, I initially didn’t make friends with BU Manager X. I said, But BU Manager X, this relates to the next financial year, this is really not possible. And BU Manager X said, so to speak: “That’s not true, because now I can absorb these expenses and next year I can’t.” I said, Well, tough. This is the position I’ve taken, and BU Manager X was not amused.”

[BUC9] “En daar heb ik in het begin geen vrienden gemaakt met BU Manager X. Dat ik echt zei: Maar BU Manager X dit is volgend boekjaar, dit kan niet. En dat BU Manager X bij wijze van spreken zei: dat is niet waar, want ik kan die kosten nu nog hebben en volgend jaar niet. Ik zeg ja, pech. Ik sta daar zo in en daar was BU Manager X not amused.”

[BUC4] “This year, BU Manager Y discussed something with Corporate Staff Z about expenses that had to be charged to 2011. Then I thought, that’s strange, because BU Manager Y referred in the mail to having it agreed with Corporate Staff Z. But I opposed that. Then the manager called me and I said, that’s just not allowed, and then they withdrew that request.”

[BUC4] “Dit jaar toen heeft BU Manager Y, iets met Corporate Staf Z besproken over kosten die per sé in 2011 in de boeken moest. Toen dacht ik bij mezelf, dat is ook raar omdat BU Manager Y in het mailtje had gezegd dat het met Corporate Staff Z was afgestemd. Maar toen ben ik daar toch wel tegenin gegaan. Toen belde de manager mij op en toen zei ik 'dat hoort gewoon niet' en toen hebben ze dat teruggetrokken.”

The recurring theme tells us something about the norms and beliefs of the BU controllers and can be referred to as an institutional logic as described in Chapter 3. The identified logic of the BU controllers relates, not so much to the organization in general, but more specifically to their professional behavior. This logic provides them with a basis to legitimate their accounting choices. Therefore, this logic will be labeled hereafter as the 'professional logic'. Using this logic, however, does not necessarily result in the same accounting choices by controllers; they can make different accounting choices whilst using the same logic. The BU controllers all seemed to be strict, but the point at which they were strict varied between them. One BU controller remarked during the interview that he/she had noticed that within the organization not many BU controllers were as strict as he/she was. Interestingly, BU controllers also talked differently about 'the boundaries'. Some of them referred to the boundaries within the context of 'setting the rules', whereas others referred to the boundaries within the context of trying to identify the 'grey area' of the accounting rules:

[BUC15] [*Explaining that it is all about 'management control'*] "And management control consists of a number of things; your performance dashboard, your belief systems, and you have your boundaries: here you are and you don't cross these boundaries."

[*Participants of the group discussion, discussing the subject of risk attitude of controllers*] [GDC4] "I find that a challenge. To consider with the manager, within the boundaries – I would like to emphasize that [refers to the boundaries] - to somehow..., yes..."[GDC6] "But you have to dare to set these boundaries, so to speak. For everyone."

[BUC14] [*Geeft aan dat het allemaal gaat om 'management control'*] "En management control bestaat uit een aantal dingen, dat is je performance dashboard, dat is je geloof visie die ga je uitdragen, je belief system en je hebt de boundaries, de grenzen; hier ben jij van en je gaat er niet overheen."

[*Deelnemers aan de groepsdiscussie, pratend over de risicohouding van controllers*]. [GDC4] "Dat vind ik wel de uitdaging om met die bestuurder te kijken, binnen grenzen – dat zeg ik er nadrukkelijk bij – om toch ja..."[GDC6] "Maar die grenzen moet je wel durven stellen zeg maar. Bij iedereen."

This subject is further discussed in Chapter 5.3 where different BU controller styles and the other controller related factors identified are discussed. Corporate finance staff used the same professional logic as the BU controllers. In both the individual and in the group discussion where the findings were presented, the corporate finance staff participants recognized the recurrent theme of firm behavior and setting boundaries, and stated that they considered this as ‘part of the job’.

Another aspect of the professional logic that emerged from the research was the importance of having an *‘overall view and a consistent presentation’*. When presenting the research findings relating to the identified accounting choice process in the corporate finance staff group session, the participants focused on the importance of BU controllers having an overall view when analyzing the financial outcome. Approximately a quarter of the total time of the group discussion with corporate finance staff was spent on this subject. One participant summarized it as follows:

| | |
|---|--|
| <p>[GDS2] “I always say that if the numbers aren’t what you expected them to be, then something is wrong. It’s probably in the numbers, or you don’t understand your business at all: it’s one or the other.”</p> | <p>[GDS2] “Ik zeg altijd dat als de cijfers niet aansluiten met wat jij denkt dat het zou moeten zijn dan zit er iets verkeerd, waarschijnlijk in de cijfers of je begrijpt je business totaal niet. Een van de twee.”</p> |
|---|--|

Corporate finance staff expect a consistent presentation of the BU financial outcome, and that the BU controller is able to explain any variance with the expected outcome. The individual interviews with the BU controllers revealed that this is something that BU controllers also aimed to achieve. During the interviews, some BU controllers referred to the fact that they do not like ‘surprises’, i.e., major variances from the expected outcome. This was also discussed in the BU controllers’ group session when the researcher addressed the subject of the accounting choices being influenced by the BU overall financial result, suggesting that BU controllers might manage their earnings at around zero in order to present a small positive result, rather than a small negative result:

| | |
|--|---|
| <p>[GDC1] “Yes and no. I think more in a way like [GDC2] just referred to, saying, You don’t want to have surprises. So, the</p> | <p>[GDC1]: “Ja en Nee. Ik heb meer zoiets van precies zoals [GDC2] net al zei: verrassingen moet je niet willen hebben. Hè, dus</p> |
|--|---|

financial result is the result that you manage during the whole year. And then you should not come with a surprise in mid-December.” [GDC4] “But if you have a surprise, no matter when this occurs during the year, you have to just announce it don’t you?” [GDC1] “Eh...” [GDC4] [laughing] “You hesitated there for a long time.” [GDC5] “Yes.” [GDC1] “Yes...to the extent eh ...at the moment that you at the year-end together decide: guys, this will approximately be it, yes? With all the knowledge you have at that moment, you say ‘now it is going to be ‘x’ and eh...then 10 minutes later a strange adjustment suddenly emerges from an unexpected corner, then I first want to properly investigate it.”

Later in the discussion [GDC2] “You know, you have to adhere to the accounting standards. But now and again you can manage it. Let’s think, I don’t want any strange fluctuations as these cause extreme reactions within the company. Does it make sense to put energy into that? Acting within the accounting rules you can say: I’m going to recognize the financial result of [amount] in one month, whereas you can also say: I’ll spread it, allocating it over three months. And then

financiële resultaat daar stuur je het hele jaar op. En dan moet je niet half december nog eens met een verrassing komen. [GDC4] “Maar als je gewoon een verrassing hebt, maakt niet uit wanneer gedurende het jaar dan wel gewoon melden toch?” [GDC1] “Eh...” [GDC4] [*lacht*] “Je twijfelt wel lang.” [GDC5] “Ja.” [GDC1] “Ja....in de omvang eh... op het moment dat je aan het einde van het jaar met elkaar zegt: jongens dit gaat ‘m ongeveer nou wel zijn ja? Met alle kennis die je op dat moment hebt zeg je van ‘nou het wordt ‘x’ enne 10 minuten later lijkt uit een hele gekke hoek ineens een hele gekke post te komen dan wil ik daar eerst wel even goed onderzoek naar doen.”

Later in de discussie [GDC2] “Weet je, je moet je wel aan de verslaggevingsregels houden. Maar je kunt af en toe wel al sturen. Even nadenken van, ik wil geen gekke schommelingen hebben want dan krijg je extreme reacties in het bedrijf, he. Is het zinvol om daar energie aan te besteden. Terwijl je wel binnen de regels blijft. En je kunt ook zeggen: ik ga nu het resultaat van [bedrag] in 1 maand pakken, terwijl je ook kunt zeggen: ik kan het over 3 maanden uitspreiden. En dan is het nog gebaseerd op

this is still based on a business case, based on decision making.”

basis van een business case op basis van besluitvorming.”

The BU controllers identify the boundaries of what accounting choices are allowed within the accounting standards and make their choice within these boundaries, in order to present the ‘overall view’ they have in mind. These accounting choices are made at BU level without involvement of corporate finance staff.

Section 3.2 of the literature review outlined a study by Lambert and Sponem (2012) who refer to the different ‘clients’ that controllers serve and the impact of the main client on the role of the controller. The controllers interviewed were *oriented towards the business*; accounting choices were made at BU level without involvement of corporate finance staff. In the group discussion, controllers stressed the importance of the combination of BU manager and BU controller, but did not refer to the importance of teamwork with their finance superior. This is illustrated by the following citation from two participants of the group interview:

[GDC4] “I compare it to a motor cross combination with a sidecar. You have a co-driver who knows when to lean in the curves; that can be really dangerous - recently one died who wasn’t performing very well. Anyway, if you don’t have enough confidence to get in because you think the driver...., then you shouldn’t participate. That’s my view. That’s how important I think it is.” [GDC1] “I don’t really agree with you.” [GDC4] “Good, I was hoping for that.” [GDC1] “I don’t really agree, because as a controller you can also say... even if it doesn’t work the way you’d like it to work. Even if you realize that the like-mindedness within the team isn’t at its best. Then you can still say, well, then I’m going to manage it. So you inform and

[GDC4] “Ik vergelijk het met motor cross daar heb je een zijspan. Dan heb je een bakkenist en die moet weten wanneer die moet overhangen in de bocht. Dat kan echt heel gevaarlijk zijn want pas is er eentje overleden, die deed dat niet helemaal goed. Maar goed, als je niet het vertrouwen hebt om in dat zijspan te stappen omdat je die bestuurder niet.... Dan moet je er niet aan beginnen. Dat is mijn stelling. Zo ver zou ik willen gaan.” [GDC1] “Dat ben ik toch niet helemaal met je eens.” [GDC4] “Mooi zo, daar hoopte ik al op.” [GDC1] “Dat ben ik niet helemaal met je eens omdat je ook als controller kan zeggen... nou ook al werkt dat niet zoals je dat graag zou willen hebben. Ook al zie je dat zo’n affiniteit binnen zo’n team niet helemaal optimaal is.

educate the people in order to improve their understanding of the financial process.” [GDC4] “Maybe, yes. I’m not saying it’s impossible..., but if the interaction is right, then you win the game. Otherwise it takes far too much energy to let the driver realize how fast he can take the curves.”

Dat je dan zegt nou ja en nou zal ik dat eens even gaan regelen. Dus dat je de mensen een stuk voeding en opvoeding geeft zodat ze veel meer het financiële proces ook... “[GDC4] “Zou kunnen, ja. Ik zeg ook niet dat het niet kan. Kijk als die wisselwerking goed is, dan win je de wedstrijd, want anders kost het je veel meer moeite om die bestuurder te laten merken hoe hard ie door die bocht kan.”

Another indication of the importance of the BU controllers’ business orientation was the outcome of the prequestionnaire, where controllers were asked to rate their knowledge on financial reporting and their business knowledge on a scale from 1-10. All controllers rated their business knowledge higher (15 of the 17 BU controllers) or the same (2 of the 17 BU controllers) as their financial accounting knowledge. Finally, it was also noted that the BU controllers seemed to identify with their BU financial statements, talking about ‘their’ figures:

[GDC6] “I had for example that...that suddenly all sorts of expenses were charged to me by [BUx]”

[GDC6] “Ik had bijvoorbeeld dat door [BUx] kreeg ik ineens allerlei kosten naar mij toegeschoven.”

[GDC1] “A very good example; at the end of the year or actually at the end of each month I have to determine my provision of course.”

[GDC1] “Een heel goed voorbeeld: aan het einde van het jaar of eigenlijk iedere maand moet ik natuurlijk mijn voorziening bepalen.”

Referring again to Lambert and Sponem’s 2012 study outlined in Section 3.2, the controller style within the organization can be labelled as a ‘partner style’, with strong authority for the finance function and local management as the main client. BU controllers showed a high involvement in the business and used a professional logic which included the setting of boundaries, identifying accounting choices, and making use of these available choices in order to present a financial result which was in line with their overall view of the business’ financial situation. Corporate staff, however, have specific expectations of BU controllers. These expectations are discussed in the following section.

5.1.3 Corporate finance staff expectations

As outlined in the previous section, corporate finance staff used the same professional logics as the BU controllers. BU controllers were expected by corporate finance staff to be professionals, setting boundaries and presenting a financial outcome consistent with their overall view. The organizational structure of the Finance department - with the BU controllers having a hierarchical relation with their Finance superior and a functional relation with their BU manager - was perceived by the BU controllers as a means to ensure the BU controller's independent position. During the group discussion, the BU controllers commented on the importance of being able to 'fall back' on the finance superior when needed:

[GDC4] "But that's why I agree with [GDC2] who says, you have to be firm." [GDC2] "That's of course why within [*the organization*], a conscious choice is made to place the controllers within the Finance hierarchy, unlike in my previous job. There I was reporting to the business in the hierarchy. And here you always have the escape option of going to your superior." [GDC6] "Yes, I agree" [GDC4] "Can I say something? That's what I meant at the beginning with the organizational structure." [GDC2] "Yes that's a good thing." [GDC6] "I agree."

[GDC4] "Maar daarom ben ik het wel met [GDC2] eens. Die zegt: je moet stevig in je schoenen staan. Een stukje lef hebben." [GDC2] "Maar dat is wel natuurlijk waarom binnen [*de organisatie*] een hele bewuste keuze gemaakt is, dat alle controllers die zitten binnen de financiële kolom. En, in tegenstelling tot bij mijn vorige werkgever. Daar zat ik binnen de lijnkolom en hier heb je altijd de escape om naar je baas te stappen." [GDC6] "Ja, nee dat is eens." [GDC4] "Mag ik nog even? Dat is wat ik in het begin zei: de ophanging." [GDC2] "Dat is wel goed hoor. Dat is wel fijn." [GDC6] "Ja dat vind ik ook wel."

Interestingly, a finance superior to whom a number of controllers report mentioned that BU controllers seldom referred to him/her with these type of dilemmas:

[interviewee] [*discussing the importance of organizational structure for the role of the controller*] "No, that's not the way I look at it at all. I have experience with both a hierarchical line as well as a functional line

[interviewee] [*met betrekking tot de invloed van de organisatie structuur op de rol van de controller*] "Nee daar zit ik totaal anders in. Ik heb zelf zowel ervaring bij in het verleden met zowel hiërarchisch als functioneel van

to finance. And actually I'm convinced that it makes no difference." [researcher] "That's something I meant to ask you: Do controllers come to you with a problem and ask you to 'put your foot down'? Because that would mean..." [interviewee] "The only controllers who have done that no longer work here. Of course there's something like a 'healthy tension'; a controller has to be able to cope with that. That's part of a controller's core-competence."

financiën en omgekeerd en ik ben er eigenlijk van overtuigd dat er geen verschil is." [researcher] "Want dat wilde ik je ook nog vragen: Komen er dan ook mensen bij jou met: ik zit met een probleem en je moet met de vuist op tafel? Want dat zou..." [interviewee] "De enige die dat hebben gedaan die werken inmiddels niet meer bij ons. Tuurlijk is er zoiets als een gezonde spagaat, bij uitstek als controller moet je in staat zijn hier mee om te gaan. Het hoort tot de kerncompetentie."

The interviewee thus implied that setting boundaries and making sure these boundaries are respected are part of the controller's job and that BU controllers should not need the involvement of finance superiors to enforce acting within these boundaries.

During the individual interviews and the group discussion with corporate finance staff, other expectations of corporate finance staff emerged. They expected BU controllers to be able to *identify accounting choices and to be transparent in their accounting choices*. In an individual interview, a corporate finance staff interviewee commented on the differences between controllers in identifying and communicating accounting choices:

[researcher] "Are there differences between controllers?" [CS2] "Yes. I think that some controllers, for example BUCx and BUCy consider how they can use the range of choices and they can do that; I think most of all BUCx. BUCx knows exactly, well if I account for my provision in this or that way, then my result will be like this. And in the case of BUCz I think, BUCz hasn't even considered that. I can't really judge the underlying reason but eh... there

[researcher] "Zijn er verschillen in controllers?" [CS2] "Ja, ik denk dat eh sommigen, bijvoorbeeld BUCx en BUCy, hoe ze zelf gebruik kunnen maken van speelruimte he, dus die kunnen wel. BUCx het allerbeste denk ik, die weet heel goed van nou ja, als ik mijn voorziening een beetje zus doe dan komt mijn resultaat er zo uit. Eh.in het geval van BUCz denk ik: die heeft er niet eens bij stil gestaan. Ik kan niet helemaal inschatten wat er achter zit maar

are differences.” [researcher] “What do you think?” [CS2] “Knowledge, norms and values, eh... well I mean being afraid for transparency. Not wanting to be transparent.”

eh... nee er zit verschil in.” [researcher] “Waarom denk je?” [CS2] “Kennis, normen en waarden, eh... de angst om transparantie bedoel ik dan. Niet willen geven van transparantie.”

Corporate finance staff expected BU controllers to have an overview and present financial results consistent with this overview, explaining deviations from expected results, but they also expected transparency by the BU controllers relating to the accounting choices made.

Interestingly, the aspects ‘transparency in the decision-making process’ and ‘communicating of the available accounting choices to the corporate level’ were hardly mentioned during the interviews with the BU controller. Only two controllers referred to regularly communicating accounting choices at a corporate level. The accounting choices were predominantly incurred at BU level without involving corporate finance staff. This also explains why some findings relating to accounting choice behavior by BU controllers were not recognized by corporate finance staff. The tendency of some BU controllers to sometimes smooth expenses and revenues in order to influence behavior and avoid having to explain temporary variances from budget, as referred to in the previous section, was, for example, thought to be peculiar by corporate finance staff. In their opinion, the accounting rules for recognizing revenue and expenses were not a grey area but quite ‘black and white’. Also the finding that some BU controllers consulted their business administrator/financial administrator rather than corporate control as a sparring partner in deciding on the available accounting choices, surprised corporate finance staff:

[GDS1] “I think it’s difficult to confirm that because I don’t know if all these issues eh pass us. Because eh... it doesn’t often happen that someone comes up to me and asks, hey, I have a small issue that can go one way or another, what do you think? It’s not often that the business comes up with that.” [GDS2] “Peculiar.” [GDS1] “In principle, the culture is one where you can do this openly.”

[GDS1] “Ja, ik vind het moeilijk om te zeggen of het herkenbaar is omdat ik niet weet of al die dingen ook eh helemaal voorbij komen zeg maar. Want ik... het gebeurt niet veel dat iemand bij mij komt die vraagt: joh, van ik heb even een dingetje zeg maar. Het kan deze kant op en het kan deze kant op, wat vindt jij? Dat gebeurt niet veel vanuit de business.” [GDS2] “Bijzonder.” [GDS1] “Op

zich is de cultuur er toch ook wel naar om
het gewoon open te doen hoor.”

The latter interviewee thus specifically referred to an open culture, implying that there were no barriers for controllers to openly discuss the possible accounting choices. In practice, however, the accounting choice decisions were predominately made and communicated within the BU with the involvement of BU actors such as the BU manager and BU administrator.

The findings thus reveal that corporate finance staff, besides expecting professional behavior, also focused on transparency in the decision-making process. This is hereafter labeled as the ‘corporate staff logic’.

5.1.4 Competing logics

Although it is beyond the scope of this study to provide a full analysis of the logics identified, the relation between the two abovementioned logics are discussed briefly.

The two logics identified in the previous section are competing logics. Both BU controllers and corporate finance staff emphasized the importance of professionalism and both referred, to a great extent, to the same elements of this professionalism. However, corporate staff expected transparency in the decision-making process. BU controllers, on the other hand, stressed the importance of their professionalism and responsibility within the BU. Since only two BU controllers mentioned that they communicated available accounting choices to corporate finance staff, this means that the other BU controllers either did not communicate their choices or that they did not identify accounting choices. The latter reason is unlikely, as BU controllers commented on the available freedom of accounting choices, which was also confirmed in the BU controllers’ group discussion. One BU controller worded this freedom as follows:

[BUC2] “In my opinion they [*Corporate*] do not communicate, at least it doesn’t end up with me, instructions how you should apply the accounting standards. I think there’s a lot of freedom.” [Researcher] “Conservative or aggressive?” [BUC2] “No, on the contrary, it’s unclear, resulting in it remaining a grey area. In my opinion, the

[BUC2] “Ik vind niet dat zij [*Corporate*] duidelijk naar de organisatie toe, tenminste het komt niet bij mij terecht, instructies geven hoe je accounting principes moet toepassen. Ik vind dat daarin behoorlijk wat ruimte ligt.” [Researcher] “Ook niet conservatief of agressief?” [BUC2] “Nee, juist onduidelijk waardoor het een

guidelines are too general and too vague to serve as an accounting instruction. They don't provide enough support."

schemergebied blijft. Ik vind dat de richtlijnen te algemeen of te vaag om taakstellend te werken. Je hebt niet voldoende houvast."

The BU controllers' group discussion revealed that not communicating accounting choices related to *uncertain situations*. BU controllers felt they are expected to be professional and deal with possible dilemmas. They therefore have to make a decision relating to the issues they are still able to solve themselves, without 'bothering' corporate finance staff as well as decisions about the issues that should be communicated to Corporate. The 'surprises' referred to by BU controllers in Section 5.1.2, when reflecting on whether or not to make an adjustment if the financial outcome could not be explained by their overall view, are examples of these issues. BU controllers sometimes made a conscious decision not to communicate something, because they first wanted to understand the problem. By not communicating this to corporate finance staff, the BU controller is therefore not transparent in his/her accounting choice process, which is not in accordance with the 'corporate staff logic'. This corporate staff logic, expecting transparency in the decision-making process, in these situations is a logic that competes with the professional logic. In the professional logic, BU controllers are expected to solve their problems within the business without 'bothering' corporate finance staff. This is in line with the BU controllers identifying the business as their main 'client' (Lambert & Sponem, 2012), since those interviewed work in the setting of an organization with a business oriented approach.

Corporate finance staff have to decide to what extent they rely on the professional behavior of the BU controller. One BU controller felt that corporate finance staff did interfere in what he/she considered his/her own responsibility:

[Researcher] "With respect to accounting choices do you have a lot of freedom in your opinion, or not?" [BUC14] "Yes, there are few guidelines, so ehmmm. Well let me phrase it as follows: sometimes I wonder if the issues that are addressed are the right ones." [Researcher] "For example?" [BUC14] "Well eh....for example... eh...

[Researcher] "Met verslaggevingskeuzes heb je veel vrijheid hier of juist niet?" [BUC14] "Ja, er is weinig kader dus ehmm. nou laat ik zeggen. er wordt soms gekaderd op dingen waarvan ik denk: is dit nou de juiste kadering." [Researcher] "Bijvoorbeeld?" [BUC14] "Nou eh... wat ik bijvoorbeeld...eh... er is een centrale druk om accounting dingen

there is a centralized pressure to organize accounting issues, that is your basis of control. However, I think it's exaggerated. You know, it's clearly a business responsibility to ensure that this happens."

te organiseren, dat je je basis op orde hebt. Alleen daar vind ik dat het overdreven wordt. Hè, de verantwoordelijkheid ligt duidelijk bij de business om te zorgen dat het gebeurt."

Another BU controller reflected on the type of corporate control within the organization and related this to whether or not corporate finance staff trust the Business Unit:

[BUC18] "Well you see, I think that there are 2 forms of reporting: accountability and management. I see this as 'accountability'. So, yes, then I think it's very important - what do they want to see, accountability - to what extent, how intensive. What do they want exactly? What's the philosophy within your company? Is that ...Eh...tight or loose control it's called I think...that's crucial; what philosophy do you have as an organization and what trust do you have in the business?" [Researcher] "What do you think?" [BUC18] "Here? Mmm ... I... it gives the impression, if you consider everything, that it's tight control. But...in fact that's not what it is. It's also not very loose but... well, it's more on the loose side than on the tight side, despite that you expect, you have the feeling... if you see the piles of reports, that it is tight control."

[BUC18] "Nou kijk ik vind die rapportage: je hebt 2 vormen van rapportage: verantwoording en sturing. Ik zie dit als verantwoording. Dus ja, dan vind ik heel belangrijk: wat willen ze zien, hoe ver gaat die verantwoording, hoe diep gaat dat. Wat willen ze precies. Wat is je filosofie binnen je bedrijf. Is dat eh... tight of loose control is dat geloof ik... dat is heel bepalend: wat voor filosofie heb je als concern en wat voor vertrouwen heb je in de business."

[Researcher] "Wat is jou gevoel daarbij?"

[BUC18] "Hier? Mmm... ik... het geeft de indruk hier, als je kijkt naar de staven dat het 'tight' control is. Maar...dat is het in feite niet. Het is ook niet heel 'loose' maar... nou het zit eerder aan de loose kant dan de tight kant, ondanks dat je de verwachting hebt, het gevoel... als je de stapels rapportages ziet, dat het tight control is."

Interestingly, this BU controller remarked that the elaborate corporate reporting requirements suggested that corporate control was very tight, but that he/she perceived that this actually was not the case. Two other controllers also complained about the elaborate reporting

procedures and being gradually squeezed into a 'straight jacket' over time. Similar to findings by Ezzamel et al. (2012) in their field study, the symbolic logic of the reporting technique, being a corporate staff logic, was not reflected by the material practices of reporting in the organization where a professional logic was used by BU controllers, with local management being their 'main client'. Corporate finance staff thus allowed the BU controllers freedom in the available accounting choices and expected BU controllers to make these choices using their professional judgment. On the other hand, corporate finance staff want to make sure that BU controllers have 'their business in control' by monitoring BU controller's actions and imposing elaborate reporting formats.

5.1.5 Summary

The general setting consists of business units with a range of activities and differing stakeholders. Each BU controller therefore works in a 'unique setting'. The BU controller's role in this organization is very business oriented and in the terminology of Lambert and Sponem (2012), labeled a *business partner style*. Furthermore, BU controllers perceived that they, to a great extent, had freedom when making their accounting choices. The analysis revealed a 'professional logic' which influences the accounting choice process: controllers are expected to have a high level of professional judgment in order to provide a consistent presentation of the BU financial outcome, as well as to identify the available accounting choices within the boundaries of the accounting standards and be determined in setting these boundaries. Using this professional logic, controllers' accounting choices are, however, not necessarily the same as different BU controllers identify different boundaries.

Furthermore, another logic has been identified within the organization; this is labeled 'the corporate staff logic'. This relates to the transparency of the decision-making process and the communication of the available accounting choices. The 'corporate staff logic' assumes full transparency, including the communication of the available accounting choices at a corporate level. This logic competes with the expected professional behavior of BU controllers. On the one hand, BU controllers are expected to solve their own professional problems within the Business Unit and on the other, they are expected to show full transparency. The 'professional logic' implies full decision-making at a business unit level. Controllers using this logic do not like to see 'surprises', these being major variances between the expected and definite financial result. Using professional BU control logic also implies that the available accounting choices are

discussed at a Business Unit level rather than corporate level, in order to keep optimal flexibility in the presentation of the financial results at BU level. The dominant logic used by the BU controllers interviewed was the professional logic.

5.2 CONTROLLERS' ACCOUNTING CHOICES

5.2.1 BU controllers' accounting choices

In total, 98 accounting decisions were discussed. These accounting choices related to a range of reporting items. When analyzing the choices, three main reporting item categories emerged: fixed assets, other assets & liabilities and accruals. The category 'fixed assets' and 'other assets and liabilities' mainly involved valuation decisions. BU controllers considered whether the reported items needed to be impaired or if a provision should be incurred or increased/decreased. For the category 'fixed assets', BU controllers also discussed capitalization decisions. The category 'accruals' mainly involved timing decisions relating to the recognition of income and expenses. There was also a small remaining category 'others' which involved accounting choices relating to classification and intercompany transactions, and affected various reporting items in the balance sheet or profit and loss statement. Depending on the BU's activities, different reporting items were applicable and the amounts involved for these reporting items could also be more or less material for the individual BU. Therefore, not all reporting items were discussed at every BU controller interview. Also BU situational circumstances affected the reporting issues discussed. BU controllers supporting a BU in a restructuring process had to make decisions relating to the restructuring provision, but also to reconsider whether additional provisions or impairments relating to other reporting items had to be accounted for.

There are basically two accounting choices available; to do nothing or to make an adjustment. The adjustments discussed related to valuation of assets and liabilities: impairment decisions, making additional provisions/impairments, and changing methods of estimates. They also related to the timing of accounting for expenses and revenues and to classification adjustments. It should be noted that accounting choices were labeled as 'do nothing' or 'adjustment' choices based on the BU controller's *final* accounting choice. In some instances, BU controllers' deliberated an adjustment but then consciously decided not to intervene. An overview of the accounting choices discussed, using the abovementioned categorization is provided in Table 13.

| Reporting item | number of choices | number of Business Units ¹⁾ | process routine | case specific | accounting choice do nothing | adjustment |
|---|-------------------|--|-----------------|---------------|------------------------------|------------|
| financial fixed assets | 2 | 1 | 1 | 1 | 1 | 1 |
| material fixed assets | 10 | 3 | 6 | 4 | 2 | 8 |
| immaterial fixed assets | 3 | 3 | 2 | 1 | | 3 |
| fixed assets | 15 | 6 | 9 | 6 | 3 | 12 |
| debtors provision | 14 | 13 | 10 | 4 | 2 | 12 |
| receivables provision | 2 | 2 | | 2 | | 2 |
| inventory provision | 8 | 6 | 6 | 2 | 1 | 7 |
| work in progress | 2 | 1 | 1 | 1 | | 2 |
| onerous contracts provision | 2 | 2 | | 2 | 1 | 1 |
| other provision | 6 | 5 | 3 | 3 | 1 | 5 |
| restructuring provision | 2 | 2 | | 2 | | 2 |
| other assets & liabilities | 36 | 16 | 20 | 16 | 5 | 31 |
| expense accrued | 17 | 12 | 11 | 6 | 4 | 13 |
| expense prepaid | 10 | 8 | 5 | 5 | 2 | 8 |
| income accrued | 9 | 7 | 7 | 2 | 2 | 7 |
| income deferred | 6 | 4 | 4 | 2 | 3 | 3 |
| suspense account | 1 | 1 | 1 | | 1 | |
| accrual | 43 | 16 | 28 | 15 | 12 | 31 |
| classification | 2 | 2 | 1 | 1 | 1 | 1 |
| intercompany | 2 | 2 | | 2 | | 2 |
| other | 4 | 4 | 1 | 3 | 1 | 3 |
| total | 98 | n/a | 58 | 40 | 21 | 77 |
| 1) This refers to the Business Units where the item was discussed. Eg., the category fixed assets was discussed in 6 BUs: 3 BUs material fixed assets; 2 BUs immaterial fixed assets; 1 BU immaterial fixed assets & financial fixed assets | | | | | | |

Table 13 Accounting choices discussed

Accounting choices are heavily influenced by a BU controller's deliberations. The process of accounting choices is either based on a routine process or is case specific. Accounting choices based on a routine process do not necessarily mean that all BU controllers followed the same routine; these routines are BU dependent or BU controller dependent. It should be noted that BU controllers also make decisions based on habits, hereafter referred to as rule based behavior. The deliberations in making the accounting choices and the final accounting choices are discussed in Section 5.2.3 and 5.2.4. The accounting choice process is described in the next section. An accounting choice process emerged from the interviews, consisting of different categories of activities which are described in Section 5.2.2. In this accounting choice process, BU controllers make choices that are broader than deciding 'which number to report'. Decisions relating to initiating changes of operational processes/systems or changes to customer products or conditions are also dealt with in this context.

5.2.2 Categories of activities in the accounting choice process

The categories of activities identified are: Operational review, Financial review, Valuation review, and Overall review. The categories described are strongly interrelated and not necessarily sequential. There is, however, a logic flow in the process as data are first produced by the operational system, translated and transferred to the financial system, and periodically reviewed for valuation. The type of analysis of the various categories of activities is also different: the operational and part of the financial review are mainly basic reviews which are performed on a routine detailed basis, whereas the valuation review and the overall review are on a more global basis, involving reflection. The overall review relates to the final review when considering major accounting decisions to be taken, but also relates to the review during the whole accounting choice process of analyzing the operational and financial data with the expected overall outcome in mind. The categories of activities are summarized below:

- Operational review: Assessing quality of operational information used as a basis for financial information and deciding whether to rely on operational systems and processes as a basis for financial information and/or making best estimates if the information provided by these systems/processes is inaccurate or incomplete.
- Financial review: Ensuring the financial accounts are in line with the financial accounting rules and represent the financial translation of actions and transactions incurred.
- Valuation review: Based on business developments, determining whether items in the financial statements resulting from standard transactions/accounting need to be adjusted to better reflect the financial situation of the Business Unit.
- Overall review: Determining the expected BU financial outcome and reflecting on the accounting choices in the light of this expectation.

When the findings relating to the categories of activities within the process were presented in the group discussion, the controllers emphasized the interrelationship of the operational review and the financial review, and the concurrence of these reviews. Figure 5 shows an overview of the accounting choice process. It should be noted that the controller makes the accounting choices based on his/her deliberations, and that this is not a straightforward process. The activities in the accounting choice process are, as stated before, highly iterative.

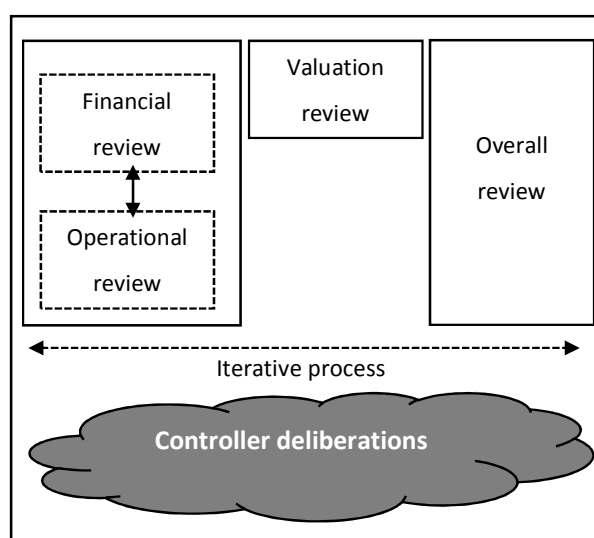


Figure 5 Activities within the accounting choice process

The activities are not equally important for every BU controller. The accounting choices available are dependent on the BU activities and situational circumstances. Some businesses are not complicated and do not require material valuation decisions unlike other businesses which are, for example, capital intensive or which are in a restructuring situation.

The specific activities and the accounting choices involved are described in more detail in the next section.

5.2.2.1 *Operational Review*

Operational processes and systems record the underlying transactions that form the basis for the financial information. One of the steps in controllers' accounting choice processes is reviewing the operational data resulting from these systems for completeness and accuracy and determining the accruals to be processed, if any. Examples of operational data mentioned are: hours to be invoiced, services rendered to be invoiced, purchase orders or services received to be accrued for.

The extent to which estimates for accruals are necessary depends on the design, use and function of the operational processes. Some controllers seemed to work with well-functioning operating processes:

[researcher] "How do you determine accrued income" (*sales to be invoiced*)? [researcher] "Hoe bepaal je de te factureren post?" [BUC1] "Op basis van het [systeem],

[BUC1] “Based on the system, which records the hours. So based on the reports generated by the system, which is prepared by [administrator]”. [researcher] “Are the hours up to date?” [BUC1] “Previously this wasn’t the case, but now it’s strictly monitored, so everyone is up to date with their hours.”

waarin de uren worden geschreven. Dus op basis van de rapportage uit [*naam systeem*] en dat wordt verzorgd door [administrator].” [researcher] “De uren zijn gewoon bij tot de laatste dag?” [BUC1] “Dat was voorheen niet zo maar nu wordt er strak op gestuurd dat iedereen zijn uren geschreven heeft.”

Other controllers indicated that the operational processes and systems have limitations which result in less accurate information. This was caused for example by new product/service introductions that are not fully embedded in the operational and financial operational information process, or by inflexible operational systems:

[BUC11 about a new pricing system] “That process was designed quite ‘creatively’ [*explains the new pricing system*] Normally this would be accounted for via the balance sheet. Here, they account for it in the profit & loss.”

[BUC11 over een nieuwe pricing systematiek] “Ze hebben het proces vrij creatief ingericht. [*legt de systematiek uit*] Dat doe je dan normaliter via de balans. Dat hebben ze hier via de p&l gedaan.”

[BUC12] “Now we have a kind of ‘standard accrual’ [still to be invoiced]. Well, that is one method but this needs to be stopped this year. However, then I first need reliable Management Information.”

[BUC12] “Ja daar is nu zeg maar een soort ‘standaard’ voor opgenomen [nog te factureren]. Dus dat is een methode en daar moeten we in de loop van het jaar vanaf. Ik vind dat we er vanaf moeten, maar dan wil ik wel eerst dat mijn MI betrouwbaar hebben.”

In cases where information from the operational systems was found to be inaccurate or incomplete, then BU controllers made an estimate based on past experience and/or on the basis of input of operational management if available. Sometimes the shortcomings of the system were accepted ‘as is’, and the BU controller did nothing. One BU controller explained how the system affected the timing of revenue recognition throughout the year.

“We’re working with a very special system landscape, with a lot of different systems linked together, where the moment of recognizing revenue sometimes is an issue for discussion. An example is [*type of revenue*]... we deliver and also recognize revenue at that moment, although the customer still has a right to return the goods. And they also have the right to compensation for discounts. So if you... you see in your result... at the moment of delivery you get a huge result, because that’s revenue. However, part of it can be returned at the end of the season and, in addition, a compensation for discounts. It is very tricky to plan that properly and that leads to major fluctuations in the month. And that’s yes, that’s a choice made within the business but does impact the financial reporting, as well as also reducing the predictability of the result.”

“We werken toch wel met een heel bijzonder systeemlandschap met allerlei aan elkaar geknoopte systemen, waarbij het moment van omzet nemen ook nog wel eens een discussie is. Een voorbeeld daarvan is [*omzet categorie*]... wij leveren en op dat moment wordt ook de omzet genomen, terwijl de klant nog wel recht van retour heeft voor zijn handel. En ze ook nog recht hebben om een... op een marge compensatie voor afprijzingen. Dus als je... je ziet in je resultaat... op het moment van uitleveren zie je een enorm resultaat, want dat is... dat is omzet. Maar daarvan komt nog wel een stukje terug straks aan het eind van het seizoen plus nog een compensatie voor kortingen. Dat is een hele lastige om dat goed in te plannen en dat leidt wel tot grote fluctuaties in de maand. En dat is een...ja dat is een keuze die vanuit de business eh... gemaakt is maar die wel invloed heeft op de financiële verantwoording maar waardoor de voorspelbaarheid van het resultaat wel wordt bemoeilijkt.”

The key element of this part of the accounting choice process is:

Assessing the quality of the output of operational systems and processes to be used as a basis for financial information, and making best estimates if the information provided by these systems/processes is inaccurate or incomplete

It should be noted that these types of data are also analyzed in the part of the process which is separately identified as ‘valuation review’.

5.2.2.2 *Financial Review*

The financial information resulting from standard processes and other actions and transactions is reviewed by the BU controllers on a monthly basis. The profit and loss amounts are compared to budget and trends in the past. This review leads to identifying unusual items to be followed up in order to ensure that transactions are properly accounted for, in line with the accounting standards. The balance sheet items are also reviewed for supporting documentation and for the accurate processing of the corrections to be made resulting from the review or improvement of operating systems.

The review of the profit and loss and balance sheet leads to the identification of accounting choices, for example identifying items which should be capitalized and identification of timing decisions relating to revenue or expenses:

[Researcher] "I read in your Q1 management report: other expenditure decreased because of transferring expenditure relating to [asset] from expenses to assets for [amount]. What was the issue there?" [BUC9] "Yes well, that is eh... the business does not always realize when something has to be capitalized. And this was an example. These expenses were eh... the amount of a [asset] at [department] was expensed whereas it should have been capitalized." [Researcher] "You discovered this by analyzing the expenses?" [BUC9] "Yes, in this case I just took a close look at the expenses."

[Researcher] "Ik had uit jouw management rapportage wel gehaald van Q1: overige bedrijfslasten zijn lager vanwege overboeking kosten [activa item] naar activa van [bedrag]. Wat was dat voor iets?" [BUC9] "Ja, dat is eh... de business heeft niet altijd helemaal door of iets geactiveerd moet worden. En dit was dus inderdaad zo'n voorbeeld. De kosten die zijn eh. Er waren kosten genomen voor een [activa] bij [afdeling] terwijl dat gewoon geactiveerd moest worden." [Researcher] "En daar ben je dan achter gekomen door naar de kosten te kijken of zo?" [BUC9] "Ja daar ben ik gewoon inderdaad de kosten ingedoken."

The key element of this part of the accounting choice process is:

Making sure the financial accounts are in line with the financial accounting rules and represent the financial translation of actions and transactions incurred.

5.2.2.3 *Valuation Review*

Apart from reviewing the basic financial information, controllers also decide if the valuation of the balance sheet items - such as fixed assets, inventory and debtors – is appropriate.

Moreover, they identify events which lead to either an impairment of assets or a provision on the balance sheet, such as a restructuring provision. Identifying these events and their effects on valuation of assets and liabilities is a more global analysis and at a higher level than the previously mentioned operational review and financial review.

In order to determine the provisions for obsolete inventory or bad debts, often a systematic calculation is used. This systematic calculation is either based on the corporate accounting instructions or the BU controller uses BU tailor-made instructions. For some items there are no corporate instruction available, and the BU controller has set up and use his/her own BU specific method. The use and availability of operational information is an important element in this category of accounting choices:

[BUC14] “For the provision for obsolete inventory, there are business rules. So we made a table with percentages, for eh....these percentages are applied to articles from a particular season and then you get an amount. That’s just a standard procedure: a table is used, applying a percentage and that generates an amount. And that’s reported because it’s a fact. Now, that’s, by the way, not the method I would like to use. What you really should do is to make two categories: seasonal and ‘never-out-of-stock’ articles... Never-out-of-stock articles you want to analyze by using the stock turnover rate.”

[BUC14] “De voorziening incurantie, daar zijn de business rules voor. Dus hebben we een staffeltje gemaakt, voor als de eh, artikelen van een bepaald seizoen zijn dan krijgen ze een bepaald percentage. Dat is gewoon een vaste regel; wordt over de tabel heen gehaald. Er wordt een tabel neergezet, wordt een percentage over gehaald en dan komt er een bedrag uit. En dat, wordt gewoon gerapporteerd omdat het een feit is. Dat is overigens niet de methode die ik zou willen. Wat je eigenlijk moet doen is, je moet eigenlijk de voorziening voorraad splitsen in 2 dingen: seizoensartikelen en ‘never out of stock’ artikelen.... Never out of stock artikelen die wil je eigenlijk op basis van de omloopsnelheid doen.”

Apart from the systematic calculation, there is also professional judgment involved in the review for valuation. Controllers referred to trends in the past and input from the business for making this professional judgment. The available knowledge in the business is particularly important for estimating future cash-generating capacity of assets and/or expected business developments that have an impact on provisions to be taken into account, e.g., claims or other liabilities:

[BUC12] “In the first year there was a lot of fuss when determining the provision. Then I had to be very firm, together with Operational manager X who is not really eh... has no real affinity with numbers. However, Operational manager X knows if it’s right or if it’s wrong, and knows what is going on. Gut feeling is very important. We defended our opinion and stuck to it. And the next year we were proved right.”

[BUC12] “En het eerste jaar met de vaststelling van de voorziening hebben we heel veel gesteggel gehad. En daar ben ik toen heel erg stellig in geweest, samen met Operational manager X die is echt eh... die heeft geen, zijn cijfergevoel is niet echt super, maar Operational manager X weet wel of het klopt of niet klopt, en wat er gebeurt. Onderbuik gevoel is heel belangrijk en we hebben ons standpunt verdedigd en vastgehouden en dat is het jaar daarna uitgekomen.”

Controllers also regularly indicated that they often used their own judgment, by using the word ‘gut feeling’. When discussing this in the group session, one controller referred to this as ‘using common sense’:

[Researcher] “I would like to discuss valuation. That’s very interesting. Controllers often refer to ‘their gut feeling’ you know, so eh... there are systems and also items are individually analyzed. However, ‘gut feeling’ is also eh...yes is mentioned regularly. [silence] Do you think that is related to experience? Or...” [GDC4] “No, that is related to your estimates. If you have to make a valuation, then this often

[Researcher] “Nog even de waardering wat mij betreft eh. Dat is wel een hele leuke. Er wordt veel gesproken op basis van gevoel, he dus eh... er worden systemen er wordt ook wel per post wordt er gekeken. Maar er wordt ook op basis van gevoel wordt er eh... ja wordt vaak genoemd. [Stilte] heeft dat met ervaring te maken denk je? Of....” [GDC4] “Nee dat heeft te maken met je inschattingen. Als je een waardering moet

involves a vision of the future that you are discounting. So then there's... you can call it... 'gut feeling'. Maybe that's not the right word. Your expectation, your..." [researcher] "Well, that word is being used." [GDC4] "Yes, but 'gut feeling' sounds very subjective. You have to base it on something, in my opinion." [GDC6] "Yes, but it's also always, yes I always think - just use your common sense, so to speak." [GDC4] "That as well." [GDC6] "Don't you think so? When you see that the trend develops like this [*points downwards*] and that's not reflected in the numbers, well then something is wrong isn't it?"

maken dan is dat toch veelal een visie op de toekomst die je contant maakt. Dus dan komen er....je kunt wel zeggen, ja gevoel. Misschien is dat niet het goede woord. Je verwachting, je..." [researcher] "Het wordt wel gebruikt." [GDC4] "Ja maar gevoel klinkt heel erg subjectief. Je moet het natuurlijk wel ergens op kunnen baseren mijns inziens." [GDC6] "Ja maar het is ook altijd, ja ik heb dan zoiets, een beetje logisch nadenken zeg maar." [GDC4] "Ook." [GDC6] "Toch? Als je die aantallen zo [*wijst naar beneden*] ziet gaan en je ziet dat in je cijfers niet terug komen ja dan is daar toch iets, he?"

The dilemma of relying on the business estimates was also referred to in other interviews. One controller phrased this as follows:

[BUC9 *regarding a possible impairment of an asset*] "Yes, that's something I've learned. This is something that you know now and what it'll be like in 2 years. This is what I know now, and that's how I considered this [the asset]. I have to trust what the business says. They say to me - it's not true, we can use it for a long time. Who am I, as a finance professional to question this? I can ask critical questions, but it's up to the business to make a decision."

[BUC9 *over een mogelijke impairment*] "Ja dat is iets wat ik ook wel geleerd heb. Dit is wat je nu weet en hoe het over 2 jaar. Dit is wat ik nu weet en dat heb ik ook bij [de geactiveerde post] zo gehad. Ik moet vertrouwen op hetgeen de business zegt; zij zeggen tegen mij, het is niet waar. Wij kunnen daar nog lang mee vooruit. Wie ben ik als financial. Ik kan kritische vragen stellen maar het is aan de business om besluit over te nemen."

For some businesses, the valuation review is more important than for others. This is partly dependent on the business activities e.g., having material amounts of assets on the balance

sheet such as fixed assets and inventory, and partly on the situational circumstances such as restructuring, or a new business proposal with capital expenditure.

The key element of this part of the accounting process is:

Based on business developments, determine whether items in the financial statements resulting from standard transactions/accounting need to be adjusted to better reflect the financial situation of the Business Unit.

5.2.2.4 Overall Review

The overall review is not necessarily a separate part of the process, but works in the background of all the other accounting choice activities. Controllers have, consciously or unconsciously, an expectation relating to the financial outcome:

[BUC 2 discussing the difficulty about predicting the timing of the revenues and expenses] “And we often discussed this and I noticed that BUCy [finance supervisor] didn’t like that much. BUCy was a little confused if the results didn’t match the expected results due to timing differences between the months.”

[BUC16] “Around the year end, from the third week of December onwards, we’re busy working on it: what’s the expected outcome and we do that as much as possible in cooperation with the group so the CFO also knows which subjects we still have to decide on”.

[BUC 2 over de onvoorspelbaarheid van de timing van omzet en kosten] “En daar hadden wij wel vaak discussies over en ik merkte dat BUCy [finance leidinggevende] niet zo goed daar tegen kon, dan was BUCy weer een beetje in de war als het resultaat niet uitkwam zoals we verwacht hadden door zulk soort maandverschuivingen.”

[BUC16] “Rondom de jaarafsluiting zijn we vanaf de derde week van december wel bezig van: waar komen we uit en dat doen we dan ook in overleg zo veel mogelijk met de groep zodat de CFO het ook weet wat de dossiers waar we nog op moeten kiezen.”

This overall view of controllers was also discussed in Section 5.1.2

The key element of this process is:

Determining the expected BU financial outcome and reflecting upon the accounting choices in the light of this expectation.

5.2.3 Controller deliberations and rule based behavior

Controllers make their accounting choices based on deliberations. When analyzing the controller deliberations, patterns emerged in the accounting choice process. These patterns were clustered in two main categories, which – for the purpose of this study – are labeled as ‘routines’ and ‘case specific’ deliberations. The BU controller routines were either based on Corporate accounting instructions or on BU specific determined methods or instructions. In some instances, however, the BU controller made decisions based on habit. This behavior is hereafter referred to as ‘rule based behavior’. Rule based behavior relates to the first stage – the rule following mode - of the dual mode rationality discussed in Section 3.1. This stage shapes the decision room of controllers. One BU controller explained how he/she became aware of his/her rule based behavior on one occasion:

[BUC9 about capitalizing expenses for a marketing stand] “And I properly disclosed it in my report, that I had made the choice to capitalize. Director A [Division Director] said then, why did you capitalize it? And then indeed I thought - yes, that could have been a grey area; and it is a grey area. Of course it lasts more than one year. But on the other hand, marketing expense... I could have expensed it immediately...I will never forget that. I also went bright red and thought - actually you do have a point.”

[BUC9 over een activering van een marketing stand] “En ik had het netjes in mijn toelichting geschreven, ik heb die activeringskeuze gemaakt. Directielid A [Divisie directeur] zei toen: waarom heb je die geactiveerd? En dat ik toen inderdaad dacht. Ja, dit had een grijs gebied kunnen zijn. En het is een grijs gebied. Tuurlijk gaat hij langer mee, maar aan de andere kant: marketing kosten... had ik het ook in één keer... Ik vergeet het nooit meer. Kreeg ook een rode biet van hier tot Tokio en dacht daar heb je eigenlijk wel een punt.”

The two categories of controller deliberations are discussed below. There were two types of routine choices. First, BU controllers indicated they made their accounting choice by following the accounting instructions:

[BUC16 answering a question on capitalizing software development expenses] “There we just followed the Corporate accounting instructions and

[BUC16 antwoordend op een vraag naar activering van software ontwikkelingskosten] “Daar hebben we gewoon de richtlijn van Corporate gevolgd en tot op

reviewed the expenses by working our way through the invoices.”

factuur niveau zijn hier de kosten doorgespit.”

Second, routines were based on the experience within the business. Some BU controllers who had worked at a BU for several years referred to how they gradually improved the past situation and established a routine:

[BUC15 *about determining the balance sheet item ‘accrued income’*] “Well, we did have a learning curve in that respect. Eh... initially, we’d been doing this for years, but initially we sometimes had it wrong. And then you refine the method, do things more in detail. Now we have a method of which I would say, I fully support it.”

[BUC15 *over het bepalen van de post ‘nog te factureren’*] “Nou goed daar hebben we ook een leerperiode gekend. Eh... de eerste tijd, we doen dat al jaren maar in het begin zit je nog wel eens mis. En dan ga je de methode wat aanscherpen. Wat meer in detail doen. We hebben nu een methode waarvan ik zeg: nou daar durf ik mijn hand wel voor in het vuur te steken.”

In some situations, it is not possible for the BU controllers to follow a routine. For example, when a BU is in a restructuring situation, the BU controller has to make estimates based on that specific situation. The BU controllers who discussed the accounting choices relating to the reporting items ‘restructuring provisions’ and ‘onerous contracts’ did not refer to routine processes since these reporting items relate to specific non-routine circumstances. The two accounting choices relating to ‘other receivables’ were also both not based on a routine process. They both related to the accounting for fees from agents, where it was not clear if the full amount could be collected. These fees were not part of the core-business and therefore determining the valuation of these receivables was not based on routine-procedures. Finally, the accounting choices discussed that related to intercompany were also both not based on routine procedures, because both related to transactions that were not recorded as intercompany transactions, and were solved pragmatically, thus deviating from standard procedures/routines. In their deliberations relating to accounting choices of all other reporting items, some BU controllers followed routines and others did not.

The difference in patterns identified is further discussed in Section 5.3 ‘Controller style and other controller characteristics’.

5.2.4 Accounting choices incurred

The actual accounting choices available to controllers are straightforward: either the controller does nothing or the controller makes an adjustment. The BU controller did nothing in 21 out of the 98 accounting choices discussed. Most accounting choices where the BU controller decided to do nothing related to the reporting item 'accruals'. BU controllers explained when discussing these choices, either that they had been considering the timing of the expenses/revenues or that they were pressured by others to change the timing, but that they decided not to adjust the amount. Other choices discussed during the interviews where BU controllers indicated that they had decided not to adjust the amounts mainly related to the valuation of assets and provisions. These involved routine process decisions such as the review of the provision for bad debts as well as case-specific situations. For example, one BU controller involved was asked by corporate finance staff to consider making a provision for onerous contracts but the BU controller decided that this was not applicable for this specific situation.

Below is an interesting deliberation about a BU controller deciding whether to change the revenue recognition of a service or to follow the routine of previous years. Although the BU controller decided to consistently account for the revenues, following the method of previous years, he/she perceived this as earnings management:

"And there I definitely chose to eh... I am convinced that there are two ways to look at it. And both methods can be justified. I can argue that I recognize them [*revenues relating to services*] directly when I receive them. I can also argue: I have a system that I have been using for years. I connect them with the main product and recognize it with the revenue recognition of that product. And that is 100% true. I consciously postponed it to next year because I did not want to have even more revenues in the last year. That is definitely an example of

"En daar heb ik absoluut ervoor gekozen om de eh...Ik ben er van overtuigd dat er twee manieren zijn om er naar te kijken. En beide manieren zijn verdedigbaar. Ik kan stellen dat ik ze [*omzet met betrekking tot diensten*], op het moment dat ze binnenkomen als direct vrij te vallen beschouw. Ik kan ook zeggen: ik heb hier een systematiek die ik al jaren volg. Ik koppel ze aan het hoofdproduct en laat ze met het ritme van het hoofdproduct vrijvallen. En dat is 100% waar. Ik heb ze bewust doorgeschoven naar volgend jaar omdat ik niet nog meer omzet in het vorige

earnings management, I completely admit that.”

wilde hebben. Dat is absoluut een voorbeeld van resultaatsturing dat geef ik helemaal toe.”

Doing nothing therefore generally also involves an active choice, based on the deliberations of the BU controller.

The accounting choices are summarized in Table 14.

| Reporting item | do nothing | timing | valuation | classification | total adjustments | total choices |
|---------------------------------------|------------|-----------|-----------|----------------|-------------------|---------------|
| expense accrued | 4 | 11 | 2 | | 13 | 17 |
| expense prepaid | 2 | 8 | | | 8 | 10 |
| income accrued | 2 | 6 | 1 | | 7 | 9 |
| income deferred | 3 | 1 | 2 | | 3 | 6 |
| suspense account | 1 | | | | 0 | 1 |
| Accrual | 12 | 26 | 5 | 0 | 31 | 43 |
| financial fixed assets | 1 | | 1 | | 1 | 2 |
| material fixed assets | 2 | 1 | 7 | | 8 | 10 |
| immaterial fixed assets | | | 3 | | 3 | 3 |
| fixed assets | 3 | 1 | 11 | 0 | 12 | 15 |
| debtors provision | 2 | | 12 | | 12 | 14 |
| receivables provision | | | 2 | | 2 | 2 |
| inventory provision | 1 | | 7 | | 7 | 8 |
| work in progress | | | 2 | | 2 | 2 |
| onerous contracts provision | 1 | | 1 | | 1 | 2 |
| other provision | 1 | | 5 | | 5 | 6 |
| restructuring provision | | | 2 | | 2 | 2 |
| other assets & liabilities | 5 | 0 | 31 | 0 | 31 | 36 |
| Classification | 1 | | | 1 | 1 | 2 |
| Intercompany | | 1 | 1 | | 2 | 2 |
| other | 1 | 1 | 1 | 1 | 3 | 4 |
| Total | 21 | 28 | 48 | 1 | 77 | 98 |

Table 14 Summary of accounting choices

After analyzing the adjustments, three types of adjustments were identified. These related to the timing of expenses and revenues, the valuation of assets and liabilities, and the classification of the amounts in the financial statement.

The first category of adjustments identified relates to the *timing of expenses and revenues*.

These accounting choices were mainly incurred for the reporting items ‘prepaid/accrued expenses and accrued/deferred income’. These reporting items are labeled in this study as ‘accruals’. With respect to the timing decisions, different choice patterns emerged from the

interviews. Some controllers did not refer to timing decisions at all, whereas others seemed to carefully consider their timing of, for example, adjustments of estimates during the year, whereas others 'take it as it comes':

[BUC11] "I'll probably make that correction in July, than it doesn't affect anyone."

[BUC3] "It was possible [*to make the correction*] in September/October. Then I consciously decided to wait until the year-end, otherwise I'd keep on having to explain it in the monthly reports."

[BUC8] "Do we have to smooth this? I discussed the advantages and disadvantages; Business administrator X is a good sparring partner and Business administrator X also tells me about these issues and then, well... the principle is 'we account for it' and discuss afterwards. I find it really tricky to 'keep things in the air', and then suddenly a loss incurs or I'm afraid that I'll forget."

[BUC11] "Die ga ik waarschijnlijk in juli corrigeren want dan heeft niemand er last van."

[BUC3] "Van september/oktober mogelijk [*om de correctie te maken*], toen heb ik het bewust niet gedaan en gewacht tot jaareinde, anders moet je het telkens uitleggen in je maandrapportage."

[BUC8] Moeten we dat gaan nivelleren? Voor en nadelen besproken, daar kan ik met Business administrator X goed over sparren en Business administrator X informeert mij er ook over en dan goed... in principe is het altijd zo 'we nemen hem' later gaan we dan wel discussiëren. Dat vind ik zo link 'dan houd ik alles in de lucht' dan komt er een strop aan of ik vergeet het daar ben ik ook altijd bang voor."

This difference in behavior relating to the timing of expenses and revenues was also confirmed during the controllers' group discussion, where it was illustrated by an example of an expense that was allocated to the wrong BU entity:

[GDC6] "If I know for sure what it is and I can analyze what the impact is, then I account for it. However, if I'm not sure eh...then I just leave it. I had, for example that... that... BUx [of GDC2] suddenly charged various expenses to me, but I

[GDC6] Als ik zeker weet wat het is en de impact kan ik gewoon exact beoordelen, dan boek ik dat gewoon. Maar inderdaad als ik nog niet zeker weet of het wel of niet he, dan laat ik het staan. Ik had bijvoorbeeld dat... dat...door BUx [van GDC2] "kreeg ik

wasn't sure, so I just left it for that month. However, I did make a comment on it [in the management report]. I noted - hey, in my opinion this isn't right." [GDC2] "My expenses were too low, so I accrued for it." [researcher] "Do you think there are differences in behavior? I really had the feeling that there is controller behavior involved, but now you all seem to think about it in the same way." [GDC2] "No, [points at GDC6] we do, for example, behave differently. [looks at GDC6] You accounted for it when it was incurred and I provided for it. Slightly conservative! So, indeed the amount of xxx euro was charged twice in one month" [GDC6] "Yes."

ineens allerlei kosten naar mij toegeschoven, maar ik wist het niet zeker dus toen heb ik het die maand heb ik het laten staan. Maar dan zet ik wel een opmerking erbij. Van hee volgens mij hoort het hier niet." [GDC2] "Ik had te weinig dus ik had het voorzien" [researcher] "Denk je dat daar nou gedrag in zit? Want ik had dus echt het gevoel dat er gedrag in controllers zit. Want nu lijken jullie allemaal op dezelfde lijn te zitten." [GDC2] "Nee, [wijst naar GDC6] wij zitten bijvoorbeeld niet op dezelfde lijn. Jij nam het als het kwam en ik nam het in mijn kosten als voorziening. Wat voorzichtig van het zal wel komen. Dus toen hadden we inderdaad xxx euro dubbeltelling voor een maand." [GDC6] "Ja."

The second category, *valuation of assets and liabilities* actually also includes timing decisions. For example, with respect to the fixed assets reporting items, BU controllers decide what to capitalize and they make a choice relating to the depreciation period of the item capitalized. This is either a routine decision based on the standard procedures and the available accounting instruction or it involves new items. In total six of the fifteen accounting choices relating to fixed assets involved decisions related to capitalizing assets, including determining periods of depreciaton. One of these six capitalization decisions involved the purchase of a completely new type of asset. This choice was not routine because, for accounting purposes, the BU controller could not refer to existing standards. The other capitalization choices were all routine. The other nine choices of the fifteen for the fixed assets reporting items involved other choices relating to the valuation. The accounting choices for the valuation of assets and liabilities category were mainly incurred for the fixed assets reporting items and the debtors, inventories/work in progress and provisions reporting items. These reporting items are labeled

in this research as ‘other assets and liabilities’. With respect to the valuation decisions, BU controllers explained how they decided on the best estimate for the valuation. Some BU controllers explicitly referred to considering a more or less conservative estimate. BUC13, who was newly appointed, was very conservative in the estimates. Asking BUC13 what his/her professional dilemmas were, the answer was as follows:

[BUC13] “It’s more about - what buffer do you want to retain. So last year, because I was new, I created a reasonable buffer, of course.” [researcher] “So your professional dilemma is: how conservative can you be?” [BUC13] Yes, and when I’m less familiar then I’m more conservative than when I’ve more feeling with the material. So I think I’m quite prudent in my estimates.”

[BUC13] “Het is meer, hoeveel ruimte wil je erin houden. Dus ik heb vorig jaar, omdat ik er pas net zat best wel redelijk wat ruimte in gehouden natuurlijk.” [researcher] “Dus professioneel dilemma: hoe conservatief kun je zijn?” [BUC13] “Ja, en als ik er minder goed inzit dan ben ik conservatiever dan als ik er een beetje meer gevoel bij heb. Dus ik denk dat ik wel redelijk voorzichtig ben in schattingen.”

Other BU controllers indicated that their estimates tended to be more conservative when the BU results were on or above target.

The last category of adjustments relates to *classification adjustments*. Only one classification adjustment was discussed. One BU controller explained how he/she tried to influence the behavior of a sales manager by debiting revenues instead of debiting expenses in order to increase the provision for bad debts:

“That was an item that should really have been charged as an expense to the provision for customer x. However, since our sales manager is focused on sales, I didn’t charge it to expenses but to revenue.” [researcher] “Oh yes, but we decided not to do that in the end, didn’t we?” [BUC] “Yes, I did account for it that way and it is still accounted for it in that

“Dat was een post die eigenlijk een dotatie van de voorziening moest zijn voor klant x. Maar omdat onze sales manager op omzet stuurt, heb ik hem niet als kosten gedoteerd, maar als omzet.” [researcher] “O ja, dat hebben we uiteindelijk niet gedaan toch?” [BUC] “Jawel, dat heb ik wel gedaan, zo staat het nu nog steeds maar ik moet het in ieder geval voor oktober of

way, but I had to do something before October. I have to see how I do that because I'd rather not have it in his P&L - because he is so focused on sales."

iets... moet ik het eh...Ik moet even kijken hoe ik dat doe, want ik wil eigenlijk niet dat hij het bij zijn P&L krijgt. Want hij is zo gefocust op omzet."

As outlined in Section 2.1, this study focuses on *accounting* choices and not on other choices that affect earnings. During the interviews, however, some of these 'other choices' were referred to by the BU controllers. Although these choices are not included in the analysis of the 98 accounting choices, it is interesting to reflect on the type of choices that were discussed. One BU controller explained that their business could have achieved more sales that year, but because they already were on target, they had decided to focus their attention on other activities:

"With a little effort, we could have finished them [the projects] in December. But, because I had already met my target, we decided to focus on [other BU activities] and we finished these projects after the year-end."

"Als je eventjes je best had gedaan had je ze in december nog kunnen nemen. Maar omdat ik eigenlijk mijn resultaat al behaald had hebben we de focus op de [andere BU activiteiten] gelegd en hebben we die projecten even over het jaar heen getild."

Another BU controller had been involved in changing the customer payment conditions and commented enthusiastically on the effect of the stricter payments conditions for calculating the provision for bad debts. With the new payment conditions, the valuation of the debtors outstanding can be determined more accurately:

"I review the provision for bad debts once per quarter because we have half-yearly deliveries, so that's not very frequent. From now onwards this will happen on a two monthly basis because we have changed the term to 60 days. So I can recalculate it more frequently, based on ageing. But until now, it's really based on judgment: who's doing well or not, because once a season

"De voorziening debiteuren bekijk ik één keer in het kwartaal, omdat we halfjaarlijkse leveringen hebben dus het gaat niet heel snel. Vanaf nu zal het twee maandelijks gaan, omdat we de termijn op 60 dagen hebben staan. Dus kan ik hem veel vaker herijken op basis van ouderdom. Maar tot op heden is het echt op basis van judgment van wie staat er goed voor, slecht voor

‘it’s business’The payment conditions used to be 180 days. Now you see...that’s quite cool, you don’t see it in the reports because we only report EBIT. The working capital decreased considerably because debtors were on average [amount] and they are now [amount]. So that’s really great. The provision we’ve accounted for now will also decrease, at the year-end it should be gone.”

omdat het 1x per seizoen pas kassa is...De betalingstermijn was 180 dagen, maar je ziet nu. Dat is wel gaaf, dat zie je niet in de rapportage terug omdat we alleen maar EBIT rapporteren. Het werkkapitaal is echt navenant gedaald omdat de debiteuren waren gemiddeld [bedrag] en die staan nu op [bedrag]. Dus dat is hartstikke leuk. Maar die voorziening die er nu staat gaat dus ook aflopen, einde jaar moet ie ook weg zijn.”

Moreover, some BU controllers supported businesses with foreign exchange exposure as a result of purchases of goods and services in other countries. There were corporate guidelines with respect to hedging these exposures. Two BU controllers commented on the constraint of the corporate guidelines, because competitors might not hedge their positions and might therefore be able to offer better selling prices. One controller noted that he/she had tried to make use of the flexibility that was still available to optimize the BU financial results:

“BUCa [referring to another BU controller] gave an order: at the moment it [the dollar] hits 1.40 then you can buy. But Treasury said: But that’s not the way it works; that’s not in the corporate guidelines, because then you’re speculating. That is actually... but then again, if we don’t say anything and do nothing but just say, well today you can buy, then it’s OK. So that’s...that’s very difficult but that...and that’s of course what will always happen, is that we eh... will keep looking for the boundaries of flexibility, while corporate tells us: guys, the rules are: no foreign exchange exposure.”

“Dat BUCa [refererend naar een andere BU controller] een opdracht neergelegd had van nou op het moment dat hij [de dollar] de 1.40 aantikt mag je van me kopen. Maar dat Treasury ook zegt: Maar dat is niet de afspraak. Dat past niet binnen protocol, want dan ben je aan het speculeren. Dat is eigenlijk wel... maar ja op het moment dat we het niet zeggen en niks doen en zeggen van: nou vandaag mag je kopen dan mag het wel. Dus dat is... dat is heel moeilijk maar dat... en dat is natuurlijk wat je altijd zult krijgen is dat wij eh... de grenzen van de flexibiliteit op zullen blijven zoeken terwijl

er van hogeraf gezegd wordt van jongens de regels zijn: geen valutarisico.”

Finally, BU controllers also made choices relating to the operating systems. In a routine accounting choice process, BU controllers mostly relied on the operating systems and processes. But sometimes controllers indicated that they were not satisfied with the operational systems and information available. In these situations, different patterns of behavior emerged from the interviews. Some controllers accepted the shortcomings of the systems and the lower quality of the reported numbers. As outlined in Section 5.2.2, when performing the operational review activity, one controller stated that he/she accepted the effect of the operating system on the timing of revenue recognition throughout the year due to the limitations of the system.

“It’s a monstrous system. It does what it is supposed to do, but it’s extremely inflexible. And....well, all changes in that system are very difficult to make; it’s very rigid. And yes, it also causes a lot of problems in communicating with other systems. [*continues about the shortcomings*] However, there is no budget to replace the complete system. That will be a major investment, so we have to work with the available sources.”

“Het is ook draak van systeem. Het doet wel wat het moet doen maar het is zo inflexibel als maar kan. Enne... ja alle veranderingen daarin zijn heel moeizaam tot stand te brengen. Het is heel star ingeregeld. En ja, het zorgt ook veel problemen in communicatie met andere systemen. [*gaat door over tekortkomingen*] Maar ja, er is ook geen budget om in een keer het hele systeem te vervangen. Dat gaat wel een hele grote investering worden, dus je moet een beetje roeien met de riemen die je hebt.”

Another controller explained that revenue recognition relating to the work in progress of the BU should be critically reviewed and consequently the operating system changed, but that these adjustments were not planned because of the corporate decision to discontinue the BUs’ activities.

“In principle we use a system, of course, that we’ve been using for years and years.

“In principe gebruiken wij natuurlijk een systematiek die we al sinds jaar en dag

We only finish and account for it [*the project*] in the profit and loss when it is completely finished. Possibly, if we weren't in the situation of discontinuing this activity, you'd look more critically into it [*continues about the system of revenue recognition*]. If you would want to do that, then you also have to make technical system adjustments et cetera. So, in that respect I think we're less critical than if we'd have continued the activities. Eh...so we're continuing with the system that we're using now."

eigenlijk op die manier zo gebruiken. We ronden pas af en boeken het pas in de exploitatie als het [*project*] helemaal is afgerond. Wellicht, als we niet in de situatie zouden zitten dat we stoppen met die activiteit, zou je daar wat kritischer naar kijken. [*gaat door over de systematiek*] Als je dat zou willen doen dan moet je ook systeemtechnisch laten aanpassen enzo. Dus in die zin zijn we daar denk ik minder kritisch op dan als je er langer mee door zou gaan. Eh, dus die systematiek die we nu hanteren die houden we dan in stand."

Other controllers changed processes or intended to make improvements to the operational systems and processes:

[BUC13] "Actually, I'd like to make the provision in a completely different way." [*explains how*] [Researcher] "So you're going to change it?" [BUC13] Yes, but I first have to get all the estimates. And anyway the estimates are not always of a good quality, and it's not my departments job to do this. I have to encourage someone who is also a member of the MT [*Management team*] who has to record and gather that information."

[BUC13] "Eigenlijk zou ik de voorziening heel anders willen vormen." [*legt uit hoe*] [Researcher] "Dat ga je veranderen dan?" [BUC13] "Ja maar dan moet ik al die voorcalculatie informatie in een systeem krijgen. En sowieso zijn die voorcalculaties niet altijd even best gemaakt en het ligt niet bij mijn afdeling om dat te doen. Ik moet iemand aansporen die ook in het MT [*Management Team*] zit die die informatie moet vastleggen en verzamelen."

[BUC13 *discussing a correction as a result of making a process more transparent*] "I don't know why this hasn't been done

[BUC13 *over een correctie gemaakt als gevolg van het transparant maken van het proces*] "Ik weet ook niet waarom dat niet

before. It's a very complex process; it's very complicated how all these flows go. So no one wanted to get their hands burnt. But actually, if you go back to basics, it's not all that difficult."

eerder is gedaan. Want het is een heel ingewikkeld proces, het is heel ingewikkeld hoe al die stromen lopen. Dus niemand durft zich daaraan te branden. Maar als je het heel plat slaat is het eigenlijk niet zo moeilijk."

Hence, during their accounting choice process, BU controllers also made other decisions that affected accounting choices, either directly or in the future. These choices were not only related to the timing/structuring of transactions (postponing the finalization of projects, the timing of hedging transactions) as referred to in Section 2.1. BU controllers also deliberated whether or not to change existing processes and/or operating systems, and initiated changes to the customer payment conditions. BU controller interventions therefore consist of various choices or actions, and a wide range of reasons were given for these choices and actions.

5.2.5 Summary

Based on the identified accounting choice categories of activities and the accounting choices incurred, the process and the choices are summarized in Figure 6.

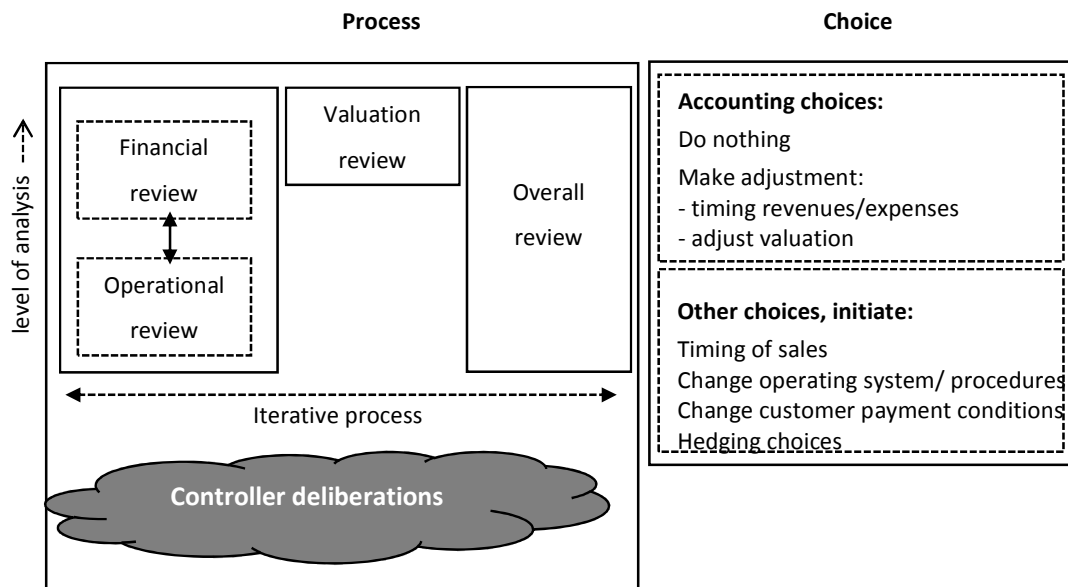


Figure 6 The accounting choice process

The identified categories of activities within the accounting choice process are strongly interrelated, and are therefore grouped together in one cluster. Although there is a logical flow, this process is highly iterative. The controller deliberations play an important role in the accounting choice process. Sometimes, however, deliberations do not play a role because BU controllers make decisions on basis of rule based behavior. The controller deliberations follow different patterns. In some situations, a routine process was followed based on corporate instructions or a systematic approach based upon experience within the BU. In other situations, the approach was not routine because either the situation was incidental (such as restructuring) or the BU controller decided that a routine approach had to be changed (such as a new way to calculate the provision for obsolete inventory).

The final accounting choices are straightforward: either the controller did nothing or the controller made an adjustment. The adjustments were categorized into two main categories: the timing of revenues/expenses and the valuation adjustments. Different patterns of choices were identified relating to the timing of revenues and expenses: where some controllers consider their timing carefully, others do not mention the phenomenon 'timing' and do not seem to identify this as a choice. In valuation choices, some BU controllers referred to considering more or less conservative choices whereas others did not refer to this as a choice or consideration.

BU controllers also made other choices that affect the financial outcome immediately or in the future. BU controllers showed different behavior when they found that the operating systems or processes were not working satisfactorily. Some BU controllers seemed to accept the situation as it was, whereas others initiated changes in the systems or processes. Other BU controllers were actively involved in the timing of sales, changing customer payment conditions, and the timing of hedging transactions.

The accounting choice process revealed different patterns of behavior between BU controllers. Section 5.3 discusses the controller characteristics and the controller styles identified in the study.

5.3 CONTROLLER STYLE AND OTHER CONTROLLER RELATED FACTORS

5.3.1 Controller style

The BU controllers involved in this research showed different patterns of behavior relating to the timing of revenues and expenses. Also, some BU controllers seemed to identify more choices than others. After analyzing these patterns, different controller styles were identified. BU controllers have different approaches in analyzing the financial results: some talked in a terminology of presenting the 'right' financial results:

[BUC2] "And a sense of fairness of a controller is also very important. In general, controllers have an important sense of fairness. That's often the reason why they choose that direction: the numbers have to be right."

[BUC5] "I want to be able to understand everything. I don't just do anything, I'm a perfectionist, everything has to be right."

[BUC2] "En het rechtvaardigheidsgevoel van de controller is ook belangrijk. Over het algemeen hebben controllers wel een groot gevoel voor rechtvaardigheid, dat is vaak een reden waarom ze die hoek ingegaan zijn, de cijfers moeten kloppen."

[BUC5] "Ik wil alles kunnen snappen. Ik doe niet zomaar iets en ik ben perfectionistisch alles moet kloppen."

Other BU controllers talked about 'the game', and were triggered by identifying the 'grey areas'.

[researcher about a change in the system for making an estimate] "You weren't inclined to defer it to the next year?"

[BUC3] "No, of course it also had to do with....we had a loss and this makes it still presentable. It's also a sort of game."

[BUC16] "Yes, I want to have the financial accounting in order, but I'm especially triggered by our range of choices and also the game. From the half-year result onwards I'm busy with: where will we end up and why. What can we and can't we influence, and do we want that..... it's more

[researcher over het veranderen van een schattingssystematiek] "Je wilde het niet over het jaar heen tillen?" [BUC3] "Nee, het heeft er natuurlijk ook mee te maken, we hadden een verlies en dit maakt het nog toonbaar. Het is ook een beetje een spel."

[BUC16] "Ja ik wil financial accounting op orde hebben, maar ik ben vooral wel getriggerd door de bewegingsruimte die we hebben en ook het spel, vanaf de halfjaarcijfers ben ik bezig: waar komen we op uit en waarom. ... Waar kun je nog

like, how do you keep your options open as long as possible until you have the total picture and can provide a consistent story how you get to that result.”

wel en niet bijsturen en wil je dat.... Meer ja, wat hier geldt van hoe houd je zo lang mogelijk alles open totdat je een totaalplaatje hebt en een eenduidige verhaallijn erover heen kunt leggen op welk resultaat kom je uit.”

One controller explained that this was also a learning process: when working as a business controller he/she realized that practical situations are not as black and white as represented in theory:

[BUC9] “In my opinion, that’s what I learned: that from an accountancy and theoretical perspective everything is black and white. And then you’re involved in the business and then...and I also noted that in discussions with you that sometimes it is just grey.”

[BUC9] “Dat vind ik wel dat ik geleerd heb. Dat vanuit de accountancy vanuit de theorie is alles heel zwart wit of kan alles heel zwart wit zijn. En dat je in de operatie zit, in de business en dat je dan inderdaad... en dat merk ik ook in discussies met jou ook dat het dan ook gewoon grijs is.”

When the findings were presented in the BU controllers’ group discussion, the participants stated that they noted that there were different types of controllers within the organization; the more financial accounting-oriented and the more management-oriented controllers:

[GDC2] “These are I think, yes there are two extreme types. One is more of a bookkeeper and the other is more management, both advising and managing.”

[GDC4] “But you have to make a difference – you actually said it yourself – between someone who is more into reporting, more financial accounting oriented; where the rules are very important and black and white. And someone, as you referred to yourself - someone in the business and where everything is not black and white, but whose focus is more on judgment.”

[GDC2] “Dat zijn denk ik, ja je hebt twee extreme types. De een is heel erg boekhouder en de andere is echt meer van management, meedenken maar ook sturen.”

[GDC4] “Maar dat je toch onderscheid kunt maken – je noemt het eigenlijk zelf al – tussen iemand die meer in de verslaggeving zit, financial gericht. Waar eigenlijk de regels toch wel heel belangrijk zijn en zwart witte en iemand wat je zelf zegt. Die in de business zit en waar het mijns inziens ook veel minder zwart wit is. Waar het veel meer aankomt op judgment.”

The two types of controllers identified show different behavior when making their accounting choices; they have different control styles. These styles are hereafter labeled as the ‘financial accounting style’ and ‘management control style’.

Controllers using the ‘management control style’ predominantly focused on the overall review, not only at the year-end but also at month ends. The accounting choice pattern of, where possible, smoothing the expenses and revenues, in order to present a consistent ‘overall picture’ fits with the management control style:

[BUC17] “I dislike monthly results that... one month they go one way, then the next month they go the other; and we can’t explain it, because they’re caused by administrative issues. Well I dislike that. I want that, unless there really are special external circumstances... actually I just want to think every month: these are my results. They are either good or bad and have we

[BUC17] “Ik heb een hekel aan maandresultaten die...De ene maand schieten ze links en dan rechts. Terwijl we het eigenlijk niet kunnen uitleggen, het eigenlijk administratieve dingetjes zijn. Nou daar heb ik een hekel aan. Ik wil dat, tenzij er echt sprake is van bijzondere omstandigheden van buiten. Ik wil eigenlijk gewoon iedere maand denk ik van: dit is

been able to manage to improve them or not.”

mijn maandresultaat in de zin van: het is goed of slecht weer geweest, we hebben daar goed of slecht op kunnen bijsturen.”

BU controllers with the ‘financial accounting style’ on the other hand present the expenses and revenues ‘as they come’ and did not refer to considerations of timing of revenues/expenses:

[BUC7 *answering the question of specific accounting choices at year end*] “Actually there are no choices, no.” [Researcher] “Just the accrued expenses I assume?” [BUC7] “Well, we analyze that every month. The accrued expenses, we just account for them every month. That’s simply... a matter of experience and analysis.” [Researcher] “That’s also quite straightforward?” [BUC7] “Yes, we’re never far off.”

[BUC7 *antwoordend op de vraag naar specifieke accounting keuzes per jaareinde*] “Die zijn er eigenlijk niet, nee.” [Researcher] “Alleen je nog te betalen kosten denk ik?” [BUC7] “Ja...maar die bekijken we elke maand. De te betalen posten, die boeken we gewoon elke maand. Dat is gewoon...een stukje ervaring en cijferbeoordeling.” [Researcher] “Dat is vrij hard ook?” [BUC7] “Ja, we zitten er nooit veel naast nee.”

5.3.2 Technical financial accounting knowledge and interpretation of rules

Apart from the different styles, the technical accounting knowledge of BU controllers also impacts the accounting decisions. Some controllers commented on the knowledge of or the decisions made by their peer controllers:

[BUC7] “I spoke to BUCx a few times on the phone and then I think: BUCx can’t be a bookkeeper, because eh...BUX talks about a provision but then I ask what about the profit and loss? Well I don’t really dare say it out loud, but in my opinion BUCx doesn’t understand it. And I miss that.”

[BUC7] “Ik heb BUX nu een paar keer aan de telefoon gehad en ik denk dan: BUX is geen boekhouder want eh BUX heeft het over voorziening, maar ik zeg hoe zit het met het resultaat. Nou ik durf het niet hardop te zeggen maar volgens mij snapt BUX het niet. Nee en dat mis ik wel.”

[researcher] “Did you talk it over with BUCy?” [BUC13] “No, BUCy has a system ...

[Researcher] “Heb je dat met BUCy overlegd?” BUC13 “Nee, BUCy heeft als

that's not right. I know it's not right, so I corrected it. It's accounted for as prepaid expenses. BUCy accounts for it on the basis of purchase commitment. But that's going to change now."

systematiek... maar dat is niet juist. Ik weet dat het niet juist is, dus heb ik het eruit geboekt. Het staat bij vooruitbetaalde kosten gewoon. BUCy boekt het op basis van verplichting. Nu gaat het anders worden."

Other controllers indicated that they feel that they have to update their knowledge:

[BUC10] "Sometimes I think I should brush up my knowledge in that area."

[BUC10] "Soms denk ik wel eens, ik zou op dat gebied wel wat moeten bijspijkeren."

[BUC4] "I do notice when I talk to you or other people of the department [Reporting] that maybe, sometimes, without realizing it, I don't do things completely correctly. Everything changes so quickly."

[BUC4] "Ik merk wel dat als ik dingen met jou of andere mensen van afdeling [Reporting] dat ik soms misschien dingen niet goed doe zonder dat ik het weet. Het gaat zo snel allemaal."

[BUC6] "I have very nice people in my department, but I can't discuss complicated accounting issues with them. I need these people - don't misunderstand me - but I can't....and I'd like to do so."

[BUC6] "Ik heb hele aardige mensen op de afdeling zitten maar daar kan ik geen zware vakinhoudelijke discussie mee voeren... En ik heb die mensen nodig - begrijp me niet verkeerd - maar daar kan ik niet... en daar heb ik wel behoefte aan."

Because of a lack of technical accounting knowledge, controllers sometimes may think they have an accounting choice relating to the smoothing of expenses, whereas they actually do not have a choice. Two of the accounting choices discussed by controllers were actually not a choice when following GAAP. One of these choices related to recognition of discount for rental expenses which was recognized when received, whereas according to GAAP this should be spread over the contract period. The other choice related to making an accrual for project costs; instead of making an accrual, these costs should have been accounted for in the year of disbursement being the period when the services were rendered for this project. When following the accounting standards, expenses have to be accounted for when the services or goods are delivered. This is mostly very straightforward and does not involve an accounting

choice. On the other hand, financial accounting knowledge combined with previous experience also sometimes leads to rule based behavior where BU controllers automatically make accounting choices, whereas they may have an option to make another choice. In Section 5.2.3, an example was provided relating to the capitalization choice made by a BU controller. The researcher expected that controllers with an auditing background or another strong financial accounting background would identify more accounting decisions. This did, however, not emerge from the interviews, probably due to the rule based behavior relating to accounting decisions. The BU deliberation in Section 5.2.3 relating to capitalizing expenses without even thinking about it, based on past experience, is an illustration of this rule based behavior.

Apart from financial knowledge, an important factor in making accounting decisions is the interpretation of the accounting rules:

[BUC2] “Then I try to follow the accounting rules. Sometimes the rule is not clear enough and then you have to judge what it is; if it lasts for several years, then it should be capitalized. But if you consider the character of the item, then if it’s not something that lasts for several years, you have to expense it. These type of deliberations, they’re not so much earnings management but more an interpretation of rules.”

[BUC2] “Dan probeer ik wel zoveel mogelijk aan te sluiten bij de accounting rules. Soms is die regel niet duidelijk genoeg dan moet je inschatten wat het is, is het iets wat meerdere jaren meegaat. Dan zou het qua bedrag geactiveerd moeten worden, maar als je de aard van de post ziet dan is het geen bedrag waar we langer dan een jaar plezier van hebben dus in de kosten boeken. Dat soort afwegingen, veel minder resultaat beïnvloeding. Meer interpretatie van de rules.”

There is not always a straightforward answer, and the interpretation of the accounting standards can sometime lead to interesting and dynamic discussions among professionals. One interviewee referred to an internal discussion about whether or not a provision should be made in a specific situation and states:

“There were eh.... internal and external differences in opinion about accounting for something or not. Internally, some pressure

“Dat er eh... intern en extern verschillen in mening bestonden of je iets wel of niet kon opnemen. Waarbij er intern veel krachten

was on eh... accounting for it, and others strongly emphasized that it should not be accounted for.” [researcher] “There were different ‘camps’ weren’t there?” [interviewee] “Yes there really were different ‘camps’.”

waren om eh... het wel op te nemen en ook wel flinke tegen.” [Researcher] “Daar had je echt verschillende ‘kampen’ he?” [geïnterviewde] “Ja daar had je echt verschillende kampen.”

When it comes to the final decision relating to the interpretation of the accounting rules, the auditor was the decisive factor. The difference in interpretation of rules among professionals was also expressed in another interview. This interviewee referred to the same discussion (as above) and stated that, although he/she accepted the final outcome, he/she did not agree with the auditor.

Due to these differences in controller styles, technical financial accounting knowledge and the differences in interpretation of the accounting rules, BU controllers make different choices. This was nicely illustrated in the corporate staff group discussion when the researcher explained that some BU controllers carefully planned the timing of the accounting for the expenses. One corporate staff participant found this surprising:

[GDS1] “Well I think that’s quite interesting. The way I think about it, is that these type of choices should be more black or white.”

[GDS1] “Ja ik vind het enigszins opvallend, als ik hem op mezelf zou projecteren dan zou dit weer een van die dingen zijn die juist nu weer wat zwarter of witter is.”

BU controllers thus set different boundaries: what is ‘black and white’ for some, is a ‘grey area’ for others.

5.3.3 Other controller characteristics

Another characteristic specifically mentioned by some controllers during their interviews, was their prudent approach in making accounting choices, i.e. the direction of their accounting choices was conservative. Their underlying characteristic is a risk-adverse attitude. In the group discussion, controllers agreed that they were, in general, risk-adverse. The individual interviews indicated, however that there are differences between them:

[BUC6] “Look at the moment that I eh... the prudence principle we were just discussing,

[BUC6] “Kijk op het moment dat ik eh... het voorzichtigheidsprincipe waar we het al

can result in a completely different estimate because of different personal characteristics I think. Yes, and I think that I eh... might be slightly more prudent in that respect. I prefer not to be too aggressive in my accounting choices. So that will certainly be reflected in the estimates.”

[BUC14 talking about a provision] “Certainly, in that case judgment is involved. And, if you are more opportunistic, then you make a higher estimate.” [researcher] “Being risk-adverse.” [BUC14] “Yes, exactly.” [researcher] “Are you risk adverse?” [BUC14] “Hmm, I do take risks but I think it’s important to ensure that the incentives are right to optimize management, which in turn gets the best out of your people.”

over hadden, dat kan door een verschillend karakter een heel andere inschatting opleveren denk ik. Ja, en ik denk dat ik eh... daar misschien nog voorzichtiger in ben. Ik ga het liefst niet op het scherpst van de snede daarin zitten, Dus dat zal zeker zijn weerslag hebben op inschattingen.”

[BUC14 over een voorziening] “Ja zeker, in dat geval wel omdat er een stuk judgment in zit, absoluut. En als je dan wat opportunistischer bent dan zet je hem wat hoger neer.” [researcher] “Risicomijdend?” [BUC14] “Ja precies.” [researcher] “Ben jij risico mijdend?” [BUC14] “Hmm ik neem wel risico, maar ik vind met name dat je de goede incentives neer moet leggen om de besturing zo goed mogelijk te hebben om de performance goed wordt van de mensen.”

It should be noted that, as outlined in Section 5.2.4., a prudent approach can also be caused by the fact that a controller is new to the business.

Another element that emerged from the interviews is labeled in this research as ‘a critical attitude’. One controller specifically referred to being BU oriented, sometimes possibly at the expense of his/her critical attitude. Other interviewees mentioned in their interview that they wanted to understand everything, and it bothered them if this was not the case:

[BUC10] “I think, if you consider that a controller on the one hand has to support his customers and on the other he has to be sufficiently critical. If I really look at myself critically, then I think that this side [support

[BUC10] “Ik denk dat als je ziet, een controller moet aan de ene kant zijn klanten ondersteunen in het besturen en aan de andere kant moet hij genoeg kritisch zijn. Als ik dan heel kritisch op mezelf ben denk

customers] sometimes is more important to me than the other side. So, I am very much....involved in pleasing my customers.”

[BUC17] “I feel that I always have to be able to understand it and be able to defend why I did something. It has to be right.”

[BUC7 *about corporate staff wanting BUC7 to make an adjustment*] “I don’t have it ...it was in my numbers and I said, I’m not going to do anything with it. It annoys me if I don’t understand it and if I can’t explain the message.”

ik dat deze kant [*ondersteunen van klanten*] wel eens wat zwaarder weegt dan die kant. Dus ik ben wel heel erg zo van ik maak het mijn klanten naar de zin.”

[BUC17] “Ik vind dat ik het altijd moet kunnen begrijpen en verdedigen waarom ik iets heb gedaan. Het moet wel kloppen.”

[BUC7 *over een correctie te maken in opdracht van corporate staf*] “Ik heb het niet....het zat in mijn resultaat. Ik heb gezegd ‘ik doe er niks mee’. Het stoort me dat ik dat niet begrijp en dat ik de boodschap hier ook niet kan overbrengen.”

Another BU controller referred to a critical attitude when applying the accounting rules:

[BUC9] “That’s something I notice within the organization, that there are not many people who are as strict as I am.”

[BUC9] “Dat merk ik wel binnen de organisatie dat er niet zoveel mensen zijn die er zo strak op sturen als ik.”

This critical attitude establishes the boundaries within which ‘the game is to be played’. A critical attitude also affects the quality of the estimates; see Section 5.2.2 where controllers discussed how they reviewed business cases and the input provided by operational management.

5.3.4 Summary

The interviews revealed a number of controller characteristics that impact the accounting choices incurred. Based on the analysis of the controller characteristics, two controller styles were identified: a financial accounting style and a management control style. These styles lead to different accounting choices. Controllers using a management control style are focused on the overall view, they want to ‘tell a story’ and are more inclined to smooth expenses and revenues and use the estimates and judgment in order to provide a consistent presentation of the BU results. Some of these controllers also consider the impact on the behavior within the business as a result of their accounting choices in their decision process. Controllers using a

management control style seem to be more likely to identify so-called 'grey area's' in the accounting rules than controllers using a financial accounting style. The latter are more focused on the financial accounting aspects and apply them in a straightforward way taking expenses/revenues 'as they come' and trying to use the best estimate for a provision without considering a possible more or less conservative estimate.

Apart from the above-mentioned styles, the financial accounting knowledge of controllers also varied. This also influenced accounting decisions. Financial accounting knowledge was expected to lead to recognizing accounting choices and identifying a grey area. This did not emerge from the interviews. It was identified that financial accounting knowledge combined with previous experience sometimes led to routine-behavior, and therefore had an opposite effect: being less open-minded to recognizing accounting choices.

Other differences between controllers identified were 'risk attitude' and 'critical attitude'. A more risk adverse attitude leads to more conservative accounting choices and estimates. Being new to the business can, however, have the same effect. A controller with a critical attitude is more likely to critically review business estimates and to have a proactive approach in dealing with signaled operational processes and systems problems that affect the quality of the information to be used for accounting choices. The combination of the various characteristics result in defining different boundaries which led to different accounting choices.

Although the BU controller ultimately makes the accounting choice, there are also other actors involved in the accounting choice process. In the next section, the actors involved and their characteristics are discussed, as well as other factors influencing the accounting choices.

5.4 ACTORS AND FACTORS INFLUENCING ACCOUNTING CHOICES

5.4.1 Actors in the general setting

The BU controllers interviewed all worked in a specific setting which influenced both the accounting choices available and the accounting choice process. This setting was partly the same for all the BU controllers and partly BU specific. In Section 5.1.1., the different external stakeholders were identified for the association's different types of activities, the insurance activities, and the other commercial activities. Due to these different stakeholders, the dynamics of the BUs involved in these different types of activities are completely different. The BU involved in the activities of the association focuses on making sure that the agreed upon

activities are performed and that the allocated budget is spent on those activities. BUs involved in insurance activities are subject to additional regulation for financial institutions with a strong focus on solvency. Some controllers reflected during the individual interviews on the implication for accounting choices of these differences in dynamics between the business units:

[BUC8] “Because, from the perspective of the association, you have to establish a certain social... well, an association is different from a commercial entity. For commercial entities, the bottom line has to be a profit and a ROS [*return on sales*].”

[BUC4] “So, really it’s ‘not done’ for BUx [*association activities*] to spend too little. I think therefore that there’ll be an inclination to accelerate expense recognition of projects.”

[BUC12] “And then, there is of course the discussion between entity A [*insurance activities*] and entity B [*other commercial activities*]. Entity A wants to have a prudent provision, whereas entity B wants to show a financial result that approximates as best as possible the commercial reality. Of course that’s quite a difference.”

[BUC8] “Want vanuit de vereniging moet je een bepaald sociaal... nou ja een vereniging is anders dan een commercieel bedrijf. Bij de business moet er gewoon winst en een ROS [*return on sales*] onder aan de streep staan.”

[BUC4] “Het is dus eigenlijk ‘not done’ voor BUx [verenigingsactiviteiten] om te weinig uit te geven. Daardoor denk ik dat je dan toch sneller kiest om een project maar in de kosten te nemen.”

[BUC12] “En dan is er natuurlijk ook nog een discussie tussen entiteit A [*verzekering*] en entiteit B [*commercieel*]. A wil natuurlijk wel een prudente voorziening hebben. En het resultaat dat je in B wilt laten zien, wil je eigenlijk bedrijfseconomisch commercieel zo dicht mogelijk bij de waarheid hebben. Daar zit natuurlijk nogal een verschil.”

These stakeholders therefore influence the accounting choices relating to the timing of the expenses (making sure the allocated budget is used for association activities) and the direction of the estimates of provisions (for insurance activities more prudent than for commercial activities).

In Section 5.1, the dominant logics within the organization were also described, outlining the BU orientation of the controllers and the perceived freedom of accounting choices. One of the

standard questions asked in the interviews was: “What is, in your opinion, the attitude of top management relating to accounting choices?” The main recurring answer to this question was that there was little involvement in accounting choices from the top, and that BU controllers perceived freedom in accounting choices due to an absence of detailed accounting guidelines as discussed in Section 5.1. If BU controllers hesitated about any technical financial accounting aspects, they consulted the corporate external reporting department (in the quotes referred to as ‘Reporting’) for specific accounting choices:

[BUC8] “Well, I discussed this with Reporting. Expenses [*Depreciation*] had to be continued for a number of years; this period was longer than the rental period. Well, then we decided to do a sort artificial depreciation [*change of estimated depreciation period*].”

[BUC13] “Yes, I always try to ask Reporting for advice. Like that time involving revenues. I knew it wasn’t ‘right’, so to speak. Then I do want to check eh... if I can or cannot eh... and then I want Reporting to know how I accounted for it.”

[BUC8] “Nou goed, Ik heb daar discussie met Reporting over gehad. De kosten [*afschrijvingen*] liepen nog jaren door, langer dan de termijn dan we dat hebben gehuurd. Toen dat besluit genomen was, toen hebben we een soort kunstmatige afschrijving [*schattingwijziging*] gedaan.”

[BUC13] “Ja ik probeer Reporting altijd wel te consulteren. Zoals toen met die omzet. Ik wist wel dat het niet goed was. Zeg maar, maar dan wil ik het wel even checken van eh... dat ik het wel of niet eh... en dan wil ik wel dat Reporting weet hoe ik dat heb gedaan.”

BU controllers also did not perceive much influence from the auditors on their accounting choices. During the individual interviews with the BU controllers, none of the interviewees referred to the auditor when they were asked the standard question: “Can you tell me something about the persons that influence your financial reporting choices?” If the researcher asked further, by asking why they did not mention the auditor, the interviewees commented that the auditor did not affect their accounting choices and that they were hardly ever contacted by the auditor. Some of the interviewees expressed their surprise at this lack of contact, and others explained that the frequency and intensity of their contact with the auditor had been decreasing over time. However, close contact with auditors for material and incidental accounting choices were an exception to this tendency. When discussing the choices

relating to restructuring provisions, provisions for onerous contracts, and pension provisions, interviewees referred to an active involvement of the auditor in the decision-making process. These choices were documented by BU controllers in an accounting memorandum and were reviewed by the corporate external reporting department and by group control, and were authorized by the CFO/board of directors:

[BUC9 *relating to a decision to capitalize*] “So, yes we do look into that. Within the boundaries. A [*accounting*] memorandum is prepared. You can do this or that, and these are the consequences.”

[BU9 *over een activeringsbeslissing*] “Dus ja, daar wordt wel degelijk naar gekeken. Binnen de grenzen Ja, maar daar wordt dan ook een memo over geschreven. Je kan dit of dit en dan is dit de consequentie.”

[BUC14 *relating to a business case*] “Eh... I generally ask Group Control to check it. They evaluate the set-up, then I have it checked for technical accounting issues and then to the CFO for decision-making by the board of directors.”

[BUC14] “Eh... wat ik meestal doe is stukje toetsing door GC. Die kijkt mee hoe ik hem opgebouwd heb, laat hem toetsen vaktechnisch en dan naar CFO voor besluitvorming vanuit directie.”

Sometimes ‘triggering events’ were identified by a Finance superior and the BU controller was asked to document possible accounting choices. This was, for example, the case for one organizational unit where a restructuring was going to take place which had, at the time of preparing the annual report, not been communicated. The controller was asked to think about the financial consequences and possible accounting choices given that situation. The controller’s hierarchical finance manager explains:

“Well we tried to find the optimum of – how should I put this... what we actually wanted, to be honest, what we actually wanted was to make a provision for the fact that we knew that an important part of the work force was going to be made redundant. It had not been communicated at an individual level and the accounting

“Nou ja, wij hebben daar gezocht naar het optimum van, hoe zal ik het zeggen... wat we eigenlijk wilden, in alle eerlijkheid, wat we eigenlijk wilden was een voorziening treffen voor het feit dat we wisten dat een belangrijk deel van het personeel ging afvloeien. Het was nog niet op naamsniveau was het bekend en dat schrijft de

standards indicate that, in that case, you are not allowed to make a provision. Well I find that very frustrating, that's the way I feel about it. In the end, we opted for items that could be provided for."

regelgeving voor dat je er geen voorziening voor mag opnemen. Nou, ik vind dat heel frustrerend, zo zit ik daar dan in. Uiteindelijk is er voor gekozen, wat mag je wel voorzien."

The CFO/board of directors, the auditor and finance superiors influenced accounting choices that were considered important for corporate purposes. The choices discussed all related to material amounts and incidental situations.

5.4.2 Actors in the BU setting

As outlined in Chapter 5.1, BU controllers have a hierarchical relation with their Finance superior and a functional relation with the BU manager. Due to the business orientation, the relation between the BU manager and the BU controller is very important. The interviews revealed that some BU Managers were more involved in the financial process than others. This difference was very clear in the way BUC9 and BUC4 talked about 'their' BU manager:

[BUC9] "Yes, if it isn't clear, then BU manager will say, This can't be right. Or eh... - BUC9, now you're wrong. And then I'd say, these are the numbers and this is how I calculated them. And then we actually always agree in the end, or I may have made an error in my calculations."

[BUC9] "Ja, als er dan onduidelijkheid is dan zegt BUM: dit kan echt niet kloppen. Of eh...: BUC9 nu zit je verkeerd. En dan zeg ik: Dit zijn de getallen en zo kom ik eraan. En dan komen we er eigenlijk ook altijd wel. Of het kan zo zijn dat ik een fout heb gemaakt in mijn berekening."

[BUC4] "In principle, the BU manager trusts me to manage all the financial matters. I report to the BU manager on how we are doing and what choices we might have to make. However, that is something the BU manager completely entrusts me with".

[BUC4] "In principe vertrouwt - BU manager - aan mij toe dat ik dat hele financiële stuk beheer. Ik zal BU Manager rapporteren hoe we er voor staan en welke keuzes we wellicht moeten maken. Maar dat is wel iets wat BU Manager volledig aan mij toevertrouwt."

If BU Managers have little affinity with (financial) information processes, then this also affects controllers because they have to exert more effort in explaining the financial consequences of

business decisions and the financial result developments of the business. On the other hand, managers with an affinity for finance, have a critical attitude and challenge the controller. One BU controller, who worked for various BU managers, reflected on the difference between BU managers:

"I think someone like BU Manager A.... Some financial background is a minimal requirement for someone at a certain level. BU Manager A might be an extreme, calculating cost prices him/herself. Someone who does have some affinity is for example BU Manager B; both operational and financial. It enables you to make quicker decisions. At BUx we still have to fill in a target. I think that those decisions would have been taken months ago at BU A."

"Ik vind zo iemand als BU Manager A... Een beetje financiële achtergrond is toch wel een minimale vereiste voor iemand op een bepaald niveau. Misschien is BU Manager A dan weer uiterste, zelf kostprijs berekenen. Maar iemand die wel een beetje affiniteit daarmee heeft is bijvoorbeeld BU Manager B. Zowel operationeel als financieel. Je kunt dan sneller besluiten nemen. We moeten bij BUx nog steeds een target invullen. Die besluiten hadden we denk ik bij BU A maanden geleden al genomen."

BU controllers also refer to their business administrator/reporter as being a valuable sparring partner:

[BUC3] "So if I myself ... if I realize I'm getting involved in a conflict situation or I have to finally discuss it with my director, then indeed I first consult Administrator A."

[BUC3] "Dus als ik dan zelf....ik zie, ik kom in een conflictsituatie, of ik moet het met uiteindelijk met mijn directeur bespreken dan neem ik dat eerst wel met Administrator A door ja."

[BUC16] "Let me phrase it like this. Because I know that Administrator/reporter B has a relatively good financial accounting/accountancy background and tries to be very straightforward, then I try to challenge this to see: how far can we stretch this."

[BUC16] "Laat ik het zo zeggen. Omdat ik weet dat Administrator/reporter B een redelijk financial accounting/ accountancy achtergrond heeft en redelijk recht in lijnen probeert te zitten, probeer ik toch wel uit te dagen om te kijken: hoever kunnen we het oprekken."

Not all BU controllers and BUs were supported by a business administrator. Not having a BU administrator implies that the BU controller has to spend more time on administrative tasks and has less time for overall analysis and review. Two BU controllers who both did not have a business administrator referred to the tension between administrative tasks and control:

[BUC6] “In my opinion, there’s a lot of tension between accounting and controlling. Because accounting has to be done, so that involves a lot of time.”

[BUC6] “Ik vind dat er heel veel spanning staat op accounting versus controlling. He, want accounting moet door. Dus daar gaat heel veel tijd in zitten.”

[BUC5] “Now and again, I think I’m too involved in bookkeeping, processing all the journal entries and making sure the financial report is finished. And I would like to focus more on controlling. I have too little time available and I sometimes regret that.”

[BUC5] “Af en toe vind ikzelf dat ik teveel bezig ben met boekhouding bezig ben, dus het inboeken van alles en zorgen dat de rapportage er ligt en zelf af en toe iets meer richting de controlling kant wil, daar heb ik gewoon te weinig tijd voor en dat vind ik wel eens jammer.”

Finally, other operational managers or employees in the business were also referred to by BU controllers when discussing their accounting choices; for example, when deciding that accruals were complete and when discussing provisions. It was interesting to note that only a small group of Controllers mentioned their peer controllers as a sparring partner. These controllers belonged to the same division and supported comparable businesses. The variety of types of businesses within the organization probably explains the lack of other controllers being involved in ‘peer consulting’.

Apart from actors influencing the accounting choices, other factors had an impact on the accounting choices. These factors are discussed in Section 5.4.3.

5.4.3 Factors influencing accounting choices

The factors influencing the accounting choices can be classified into four categories. First, the corporate control factors which relate to the planning and control procedures. Second, the business factors which relate to the BU size, activities and the operating systems and processes. Third, the situational factors such as restructuring activities. Finally, the external reporting standards and changes therein.

5.4.3.1 *Corporate control factors*

In Section 5.1, the planning and control procedures within the organization were described. The extent to which the organization provides corporate accounting instructions affects the accounting choices available to the BU controller; the less detailed the instructions, the more choices available to the BU controller. The perceived freedom of accounting choices as outlined above was in contrast with the strict planning and control deadlines. Some controllers perceived the planning and control reporting deadlines to be very tight, and remarked that this impacts the quality of reporting:

[BUC2] “Yes, well I specifically mentioned the tight reporting deadlines. To me that’s at the expense of accuracy and I don’t see what objective can be achieved. Extend it with one week, and then everyone has the numbers available and under control.”

[BUC6] “We can also report before Christmas. But when it comes to judgments, these become more and more inaccurate.”

[BUC16] “Yes, but again it all has to do, when preparing the annual accounts, it all has to do with the financial result. So how long do you wait to ‘close the books’ in order to take events after balance sheet date into consideration or not.”

[BUC2] “Ja, nou ik heb met name genoemd, de snelheid van rapporteren. Wat voor mij ten koste gaat van de zorgvuldigheid en het doel dat je ermee wilt bereiken zie ik niet zo. Rek het een week op en dan heeft iedereen zijn cijfers tijdig op orde.”

[BUC6] “Wij kunnen ook voor Kerst rapporteren. Alleen als het over inschattingen gaat, die worden steeds onnauwkeuriger.”

[BUC16] “Ja maar dat is ook weer, het heeft allemaal, rondom de jaarrekening heeft het allemaal te maken met resultaat. Dus hoe lang wacht je bijvoorbeeld met afsluiten van je jaarrekening zodat je wel of niet nog bepaalde events na balansdatum kunt meenemen of niet.”

It should be noted that in the BU controllers’ group discussion, the tight deadlines themselves were not thought to be problematic, but rather the combination of tight deadlines and a lack of administrative support. Also, tight deadlines in combination with operating systems and processes that do not function properly were considered to cause problems for reporting quality. One controller explained that, due to time constraints, at the month-ends the results

were not subject to an in-depth preliminary discussion with BU Manager before the closing of the books:

[Researcher *referring to accounting choices relating to an accrual*] “Do you discuss this with BU Manager X, these additional journal entries?” [BUC9] “No, that is something which is done at year-end, but eh....throughout the year, operationally it is just difficult to find the time. So then mostly, then I have the journal entries processed and then I discuss the results with BU Manager X. Then he/she says: This is right, this is not right. And if it is not right then I mention it in my monthly report, like ‘this has to be looked into’. Then, indeed I do that the next month. At quarter-end, we tend sometimes to do it earlier. Ideally, it should be done every month, but that’s operational....no.”

[Researcher *met betrekking tot een overlopende post*]. “Deze info spreek je met BU Manager X door voor de laatste boekingen? [BUC9] Nee dat is iets wat per jaareinde wel gebeurt, maar eh... gedurende het jaar is dat operationeel gewoon moeilijk de tijd voor. Dus dan is het meestal, dan heb ik de boekingen gedaan en dan is het dat ik met BU Manager X cijfers bespreek. Dan zegt zij/hij dit klopt wel, dit klopt niet. En als het niet klopt dan neem ik het op in mijn maandrapportage zo van, dit moet nog verder uitgezocht worden. Dat doe je dan dus inderdaad de maand daarna. Bij het kwartaal doen we het nog wel eens iets eerder. Idealiter zou je het iedere maand doen, maar dat is operationeel...nee.”

Six other controllers also referred to a different approach at month-end compared to year-end. Of these six controllers, four also referred to a more in-depth analysis during the year: at quarter-end (2 controllers) or hard-close (2 controllers). The phenomenon ‘hard-close’ refers to the period-end at October. This period was the basis for the preliminary review by the external auditors. Specific corporate staff instructions, similar to year-end instructions, were sent to BU controllers in order to ensure proper documentation of the accounting choices and the presented financial result. By providing extra instructions for the hard-close and year-end, it might thus be part of the corporate control expectations that the month-end results are accepted to be subject to a more global review than the hard-close and year-end results.

Interestingly BU controllers also seemed to be less strict in their accounting choices at month-

end than at year-end, especially in deciding the timing of revenues and expenses. In the individual interviews, BU controllers referred to timing decisions within the year (refer to quotes in Section 5.2.4). One BU controller explicitly referred in the interview to behaving differently at month-end compared to year-end:

[BUC2] “At the month-end I act differently than at the year-end for the annual accounts. The latter are meant for external purposes, which is a clearly defined period. In my opinion the rules are more strict there than for the internal month-end close. At the internal month-end close, I would be more inclined to smooth earnings and manage them more towards budget.”

[BUC2] “In de maandafsluiting zal ik er anders mee omgaan dan bij een jaarrekening, bij een jaarafsluiting. Dat is bedoeld voor externe doeleinden, is duidelijk een afgebakende periode. Daar tellen toch voor mijn gevoel wat strengere regels voor dan dat je voor de interne maandafsluiting hebt. Bij de interne maandafsluiting zou ik meer geneigd zijn en toch wat meer egalisatie van resultaat voor te staan en meer richting budget te sturen.”

Apart from the general corporate control factors, BU specific factors were also identified that influenced the accounting choices of BU controllers; the business unit factors.

5.4.3.2 *Business Unit factors*

Some BU controllers indicated that their processes were very straightforward. There were differences in the BU activities and how these were structured. BUs were more or less capital intensive, some worked with inventories, others provided services, there were differences in debtor's collection methods, etc. These different activities resulted in different accounting choices available to the BU controllers.

[BUC8] “It's a straightforward process.”

[BUC8] “Het is een simpel proces.”

[BUC5] “Also, because I think our accounting is just not complicated.”

[BUC5] “ook omdat ik denk dat wij gewoon een vrij simpele administratie hebben.”

The importance of well-functioning operational processes and systems for reporting quality as referred to above was a frequently discussed topic during the individual interviews. Some BU

controllers do not seem to have complicated or problematic operational processes, whereas others have to spend a great deal of time gathering and checking the data:

[BUC14] “Compiling the information from data takes a lot of effort, because we have to use three sources.”

[BUC14] “De totstandkoming van de informatie, de data is vrij moeizaam omdat we daar putten uit drie bronnen.”

[BUC12] “And sometimes, being a controller here, you have to do more than controllers in other companies. Because here you mainly focus on ‘how do I get my information correct’? Whereas in other companies, they just receive the information, and that’s it.”

[BUC12] “En soms moet je hier als controller veel meer dingen doen dan een controller in een ander bedrijf. Want hier ben je vooral bezig met hoe krijg ik mijn informatie goed. Terwijl in andere bedrijven krijgen ze gewoon de informatie, punt.”

Controllers who work for BUs where operating processes and systems do not run smoothly not only have to spend more time preparing their financial accounts, but they also have to decide if it is possible to change these underlying processes, identifying how to change them, and making sure that the business allocates resources for these changes.

Finally, BU controllers support BUs of different sizes. Interestingly, the amount that was considered by the BU controllers to be a ‘material amount’ varied considerably in a range between ‘a few thousand euros’ and ‘a few hundred thousand euros’. Some of them referred to accounting choices that they considered material but that were not considered material by others. One BU controller supporting a small BU that did not meet its targets discussed the accounting choices which were material for the BU, but immaterial for group purposes. The BU controller reflected on the reaction of Finance when discussing the financial results of his/her BU:

“I did notice, for example, with Finance Manager X that compared to the numbers at BUY etcetera, then this is..... yes Finance Manager X, almost made fun of me.”

“Ik merkte wel bijvoorbeeld bij Finance Manager X dat in de aantallen bij BU Y en zo, dan is dit.....ja Finance Manager X lacht me nog net niet uit, maar het scheelt niet veel.”

Another BU controller talks about the dilemmas of supporting a small BU:

“You know that you have to follow the rules. But then you also know that within the entire organization, a specific [*small*] business will not be noticed. That’s why sometimes you are slightly less strict. Then you think: they’ll never look into that.”

“Je weet vaak wel dat je dingen volgens de regels moet doen maar dan weet je dat het op het totaal bij bepaalde [*kleine*] businesses toch niet opvalt. Daardoor ga je er soms misschien iets soepeler mee om. Dan denk je: daar kijken ze toch nooit naar.”

During the BU controllers’ group discussion the participants remarked that not only the size of the BU matters but also its strategic position within the organization and/or the situational circumstances.

5.4.3.3 *Other factors: Situational factors and external reporting standards*

The strategic position can also affect the accounting choice process and the final accounting choice. One BU controller explained that the BUs operating system should be improved in order to better allocate the revenue recognition. However, since corporate had decided that these activities were not core-business and were held-for-sale, it was decided not to further invest in the system. Other examples of situational circumstances affecting accounting choices that have already been identified in the previous sections were: BUs in a restructuring situation and BUs with onerous contracts, as well as situational factors like changes to the Management Team. The latter changes the actors involved in the decision-making process. Finally, the external reporting standards also affect accounting choices. As outlined in Section 5.3.2, some accounting rules were interpreted in different ways. Changes in accounting standards can also result in changes in choices. During the research period no such changes were effectuated.

5.4.4 **Summary**

BU controllers work in a setting which is partly the same for all BU controllers, and partly different for each BU controller. The accounting choices are influenced by the combination of all the actors and factors identified in these settings, rather than one single factor.

The organizational setting in this study is characterized by a perceived freedom of accounting choices. Corporate reporting staff consulted when BU controllers hesitate about the technical aspects of accounting choices. An active involvement of corporate finance staff, the board of directors, and the auditor is limited to specific material accounting choices, such as restructuring provisions. The difference in treatment of month-end accounting choices and

year-end choices is a general characteristic that emerged in virtually all the interviews. This can possibly be explained by the tight deadlines and the focus of corporate on year-end and hard-close, requesting additional documentation for these periods.

The external stakeholders involved are a BU-specific characteristic rather than a corporate characteristic, depending on the BU's activities. Other BU specific actors influencing the accounting choices are the BU manager and the BU business administrator. Other operational managers or employees in the BU are consulted when making accounting choices involving business judgment. Only a few BU controllers refer to their peer controllers; these peer controllers work for one division and their BUs have similar activities.

The type of BU activities influence the type of reporting items and accounting choices to be made. An important BU-factor identified that influences accounting choices was the quality of the operational systems and processes. Situational circumstances of the BU, such as a restructuring program or a strategic reorientation, also affect accounting choices.

Finally, the external reporting standards as well as the more detailed corporate accounting instructions are an important factor affecting the available accounting choices.

The BU controller setting is summarized in Figure 7.

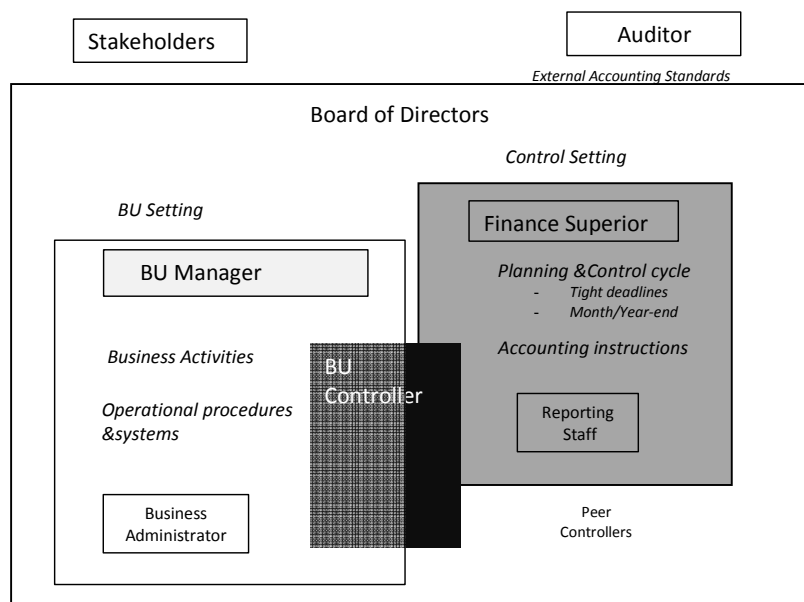


Figure 7 BU controller setting

5.5 CONTROLLERS DELIBERATIONS

As outlined in the previous section, the accounting choice process is not straightforward, but a result of BU controllers' deliberations and sometimes the result of rule based behavior.

Examples of controller deliberations relating to three subjects are presented in this section.

These reveal the complexity of the decision-making process, and the multitude of factors involved. First, an example of BU controllers' deliberations relating to the provision for bad debts is presented. This is followed by the deliberations relating to timing of accruals. Finally, several controller deliberations of three interviewees relating to the same provision for obsolete inventory are presented.

5.5.1 The provision for bad debt

The provision for bad debts was discussed with 12 BU controllers. Depending on the BU activities and the type of invoicing, the outstanding amount of debtors receivable varied. Some BUs invoice their customers for services to be rendered in the coming year, other BUs invoice customers after delivery of the goods or services. The type of customer also varied; some BUs have business-to-business activities and other BUs business-to-consumer activities or a combination of both. Some BU controllers discussed this accounting choice in more detail than others.

Invoicing and debtors collections is performed by the corporate shared service center. The corporate accounting manual provides instructions relating to the calculation of the provision for bad debts based on the ageing of the invoices. The corporate shared service center calculates a provision for the business unit based on this instruction. It is the BU controller's responsibility to review this proposal and – if they consider it necessary – to make an adjustment to the proposed provision based on their review of the bad debt risk.

Three BU controllers specifically referred to the corporate accounting manual when discussing their provision for bad debt. Two of these BU controllers referred to the system of calculating the provision of bad debts, whereas the other BU controller referred to the moment of writing off bad debtors. Hence, only 2 of the 12 BU controllers used the system for calculating the provision outlined in the corporate accounting manual and prepared by the corporate shared service center. The other BU controllers have their own system of calculating the provision for bad debts.

The deliberations of one BU controller who followed the corporate accounting manual are described below. This interviewee had an audit background and had recently become a BU controller. The style of the BU controller can be characterized as a financial accounting style: no reference was made to considering timing choices, and the BU controller discussed the accounting choices from a technical point of view. Following the corporate instructions fitted in this approach. When discussing the system for calculating the provision, the BU controller thought that the corporate system for calculating the provision was too conservative:

[Researcher] "How does this system for calculating the provision reflect your debtor risk profile?" [BUC] "Not very well, eh... while [*explains specific payment agreements*] well that risk is of course, well, not so great. And those amounts are also provided now. So if you would use this system of fixed percentages, then that does not reflect the economic situation."

[Researcher] "Hoe vind je die systematiek aansluiten op jouw debiteurenrisico?" [BUC] "Minder, eh... omdat [*legt specifieke betalings-afspraken uit*]. Nou dat risico is natuurlijk, nou zeg, niet zoveel. En die is dus ook voorzien nu, daardoor. Maar als je die systematiek zou hanteren dan is het nemen van vaste percentages, doet dan geen recht aan de economische situatie."

Although the BU controller thought that accounting for debtors using the calculated provision resulted in an amount of debtors receivable that did not reflect the estimated value of the debtors, the BU controller still applied the system:

[Researcher] "Nevertheless, you used the corporate system?" [BUC] "Because accounting wise, I already had a provision and it 'fitted'. My debtor position fitted, so to speak, in the provision I have." [Researcher] Yes, but you said that it is actually too high, so to speak. In your opinion it is slightly...." [BUC] "My provision is sufficient, is sufficient, let's put it like that." [Researcher] "Yeah, Yeah, exactly. Since you apply it consistently it

[Researcher] "Maar je hebt hem wel nu gehanteerd?" [BUC] "Omdat het cijfermatig, ik had al een potje staan dus het paste erin. Mijn debiteurenpositie zeg maar past in de voorziening die ik heb." [Researcher] "Ja, dus maar hiervoor zeg je eigenlijk hij is te hoog zeg maar. Naar jou idee is ie wat aan de...." [BUC] "Mijn voorziening is ruim, is ruim genoeg, laten we het zo maar zeggen." [Researcher] "Ja, ja. precies, maar omdat je het consequent

probably...or... or is this the first time you have applied it?" [BUC] "I eh...no. it's of course the second time that I've applied it. With the September results I had to do it and at the year-end. In September I really got to the bottom of it... so.. what do I need? And then I already had that provision and well ...just leave it there. Then I looked in the accounting manual, well that involves these categories. Yes, and the debtors position fluctuates, of course, as well. Payments are also quite reliable. So, yes at that moment the Accounting Manual fitted, so to speak, with the provision. You know, that provision is xx euro... it's not much, it's not material. That's why I eh..."

doet waarschijnlijk of.. of...is het nou voor het eerst dat je hem toepast."[BUC] "Ik eh...nee. Het is natuurlijk de 2e keer dat ik hem toepas. Met de septembercijfers heb ik het een keer moeten doen en met jaareinde. In September heb ik hem gewoon echt uitgeplozen, van joh wat heb ik nou nodig en toen had ik dat potje al en.. nou ja laat maar staan. Daarna ging ik kijken in het accounting manual, nou ja dat zijn die termijnen. Ja, en die debiteurenstand die fluctueert natuurlijk. Er wordt goed vrij goed betaald ook. Dus ja op dat moment paste de Accounting Manual standaarden zeg maar op de voorziening toen. Weet je die voorziening is xx euro.. is niet veel , is niet materieel vandaar dat ik eh.."

Hence, the BU controller decided to do nothing as the provision that was accounted for was approximately the provision according to the calculation following the Accounting Manual. Since it was the BU controller's first year, how this provision was calculated previously remains unknown. This deliberation still fits the 'financial accounting style' following the corporate instruction. It also reflects a prudent approach, because the BU controller knows the provision is too conservative. Finally, the BU controller concludes that the amount is not material. Later in the interview, another deliberation relating to this provision is expressed. The BU did not meet its financial targets for the year. The BU controller referred to this when reflecting on the influence of personality on accounting decisions:

[Researcher] "How does your personality influence your accounting choices, in your opinion?" [BUC] "Quite a lot I think, yes. If you..."[Researcher] "How?" [BUC] "Oh,

[Researcher] "Hoe denk je dat je persoonlijkheid invloed heeft op je verslaggevingskeuzes?" [BUC] "Veel denk ik wel, ja. Als jij.." [Researcher] "Hoe?"

how? Well...if you're not independent then you're easily influenced to....flatter certain numbers, that's it. If I for example...just as an example that provision calculation for debtors eh....just imagine I wanted, so to speak...they could have used a better financial result. I could have also made a calculation for the provision for bad debts of xx euro, then xx euro would have been released and the financial results increased accordingly. But I didn't do that."

[Researcher] "No, and how do you think does your personality played a role in this?"

[BUC] "Eh ..yes, o yes, because I find I cannot act that way. Or is that not what you mean?" [Researcher] "Yes, yes, exactly your professional ethics or something like that?" [BUC] "Yes indeed, it is about my ethics, yes."

[BUC] "O, hoe? Ja ...als je niet onafhankelijk bent kun je heel snel beïnvloed worden om bepaalde...om cijfers te flatteren, dat is het. Als ik bijvoorbeeld ...even als voorbeeld die voorziening onderbouwing debiteuren eh...Stel ik had gewild, zeg maar...Ze hadden best een beter resultaat kunnen gebruiken. Ik had ook een onderbouwing voor de voorziening voor dubieuze debiteuren kunnen maken voor xx euro, dan had er xx euro vrij kunnen vallen ten gunste van het resultaat maar dat heb ik niet gedaan." [Researcher] "Nee, en in wat voor opzicht speelt je persoonlijkheid daar een rol zeg maar?" [BUC] "Eh ja o ja, omdat ik vind dat ik dat niet kan maken voor mezelf. Of bedoel je dat niet?" [Researcher] "Ja, ja precies je ethiek ofzo?" [BUC] "Ja dat is mijn ethiek inderdaad ja."

The BU controller could have chosen to calculate a less conservative and more realistic provision which better reflected the economic reality. However, he/she did not want to release the provision because that would increase the financial result. The interviewee thus considered releasing the provision as earnings management because the BU had not met its targets. Earlier, the BU controller stated that the amount was not material. The BU controller apparently uses two concepts of materiality: one for corporate purposes, where the amount is not material enough to adjust, and one for BU purposes, where the amount is material enough to affect the overall presentation of the financial results.

In the above deliberations relating to the provision for bad debts, the BU controller describes the valuation activity as well as the overall review. Not only the accounting instructions and the

professional judgment of the BU controller influenced the accounting choice, but also the fact that the BU did not meet its targets. Although the BU controller's style in general could be labeled as a financial accounting style, the decision not to release part of the provision in order to avoid the BU management reaching its target has characteristics of a management control style. Finally, the perceived materiality plays a role in the decision. Figure 8 summarizes the choice process.

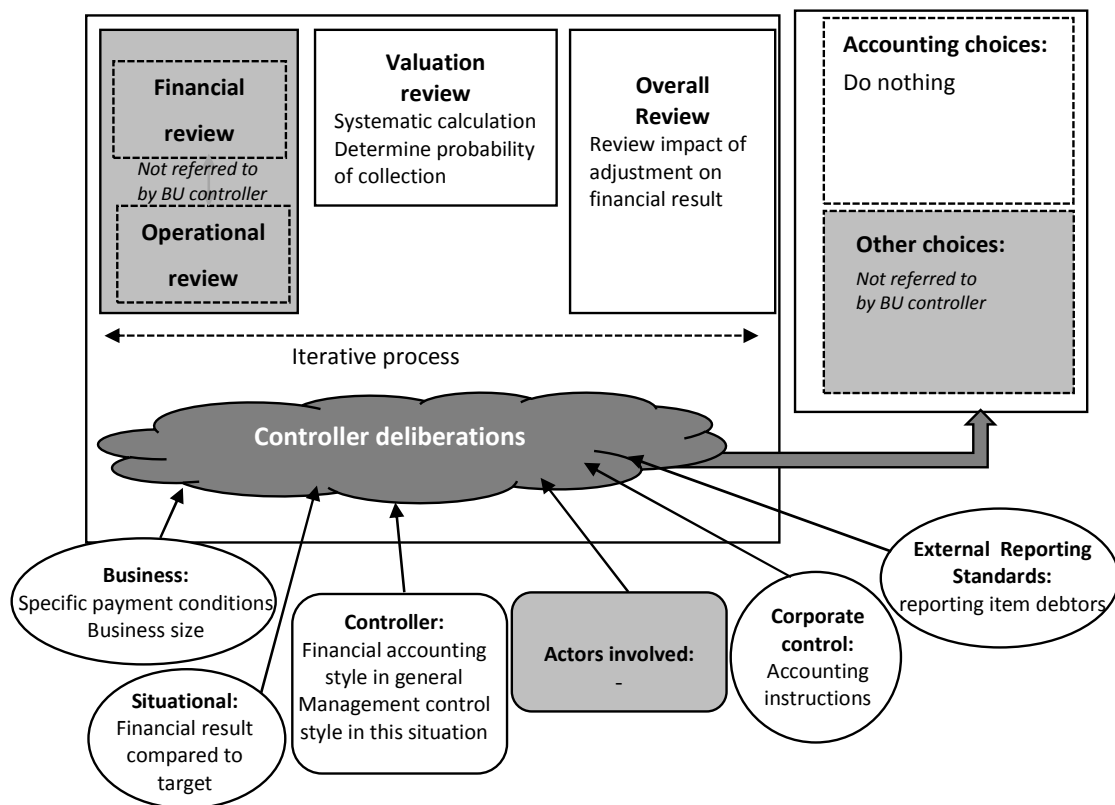


Figure 8 Accounting choice process of an interviewed BU controller relating to provision for bad debt

5.5.2 Timing of expenses

The accounting choices relating to prepaid and accrued expenses were discussed with 13 BU controllers. In this section, deliberations of two BU controllers relating to the timing of expenses are described. The first part outlines the deliberations of a BU controller relating to the reporting item 'accrued expenses' at period-end, and demonstrates the various factors affecting the accounting choice. The second part outlines the deliberations of another BU controller relating to various timing decisions of expenses, and demonstrates the broad scope of reporting

items and situations where the timing of expenses can play a role, as well as the involvement of different actors in these accounting choices.

5.5.2.1 *Deliberations relating to accrued expenses OF BU controller A*

The deliberations of one BU controller, hereafter referred to as BU controller A, relating to accrued expenses are described below. This interviewee has an audit background and has been supporting the BU for several years. The interview revealed that the BU controller only performs a detailed review of the accrued expenses at the year-end, as he/she thinks that a review throughout the year is not a useful exercise:

“Look, I do the monthly reporting completely by myself, also for a number of reporting items we do not do on a monthly basis...eh...this type of accrual for example... throughout the year I’m not going to make an estimate. Then I just say... the system provides the information, this is what’s needed. So I really, at the year-end close, I really perform a detailed review. When we had the hard-close, then we also looked slightly more into the detail, but too much can.... during those last two months, so much can still happen, then that estimate is not useful at all.”

“Kijk de maandrapportage doe ik volledig zelf, omdat we ook bij een aantal posten eh maken we tussentijds geen ...he... dit soort eh.. zo'n reservering bijvoorbeeld daar ga ik... tussentijds ga ik die niet inschatten. Dan zeg ik gewoon... het systeem zegt me gewoon dat het dit is, waar ik sta. Dus ik doe het echt met de jaarafsluiting dan ga ik er echt in detail in. Toen we de hardclose hebben gehad toen hebben we er ook iets nauwkeuriger naar gekeken maar teveel kan ...in die laatste twee maanden kan er nog zoveel gebeuren dan heeft die inschatting helemaal geen zin.”

At month-end, BU controller A relies on the information provided by the system, but at year-end, a detailed review is performed. On the basis of this review, the BU controller determines the estimate of the accrual:

[Researcher] “Do you determine that estimate all by yourself?” [BUC_A] “No, generally I determine this together with the people - there are two employees in the

[Researcher] “Die schatting, die bepaal jij helemaal zelf?” [BUC_A] “Nee ik bepaal die in de meeste gevallen samen met degene die, er zitten twee mensen op de

department who are involved in the purchasing activities. Eh... so they know far more about the suppliers and the way of working with these suppliers [explains *how they determine the estimate*]. And I focus on reviewing the system of how they determined the estimate and eh... and the completeness.”

afdeling die het hele inkooptraject doen. Eh... dus die kennen ook veel beter de leveranciers en de wijze van werken van de leverancier [*legt uit hoe ze de schatting bepalen*]. En ik kijk dan meer naar de systematiek hoe ze dat gedaan hebben en eh...en de volledigheid.”

BU controller A then continued the interview by stressing the importance of the completeness of the accrual, indicating that he/she has a prudent attitude:

“Because, what we always do is eh....well you probably already got that message - we are very conservative. Because of course... well, margin is a sensitive instrument in our business, so we are very concerned about negative adjustments afterwards. We always estimate conservatively. That also means that...and that is especially the case... at the moment you say: we expect an ROS [*return on sales*] of x% and now we are actually on [*below*], then you know what I do, I lower my accrual for expenses. You see? So, those are the moments that tension can occur. And I choose not to be too aggressive with those accruals, too low so to speak. We prefer to carry forward something to the next year.... so that there is something left for next year.”

“Want wat we wel altijd doen is eh... nou goed, dat heb je misschien wel eens eerder meegekregen, dat wij wel van de voorzichtigheid zijn hè? Want natuurlijk... nou, marge is een gevoelig motortje binnen ons bedrijf dus we zijn huiverig voor tegenvallers achteraf. We zitten altijd aan de voorzichtige kant. Dat betekent ook dat....en dat komt met name op spanning te staan op het moment dat je zegt: wij verwachten een ROS [*return on sales*] van x% en we zitten nu eigenlijk op [*lager*] en weet je wat ik reserveer wat minder. Snap je? Dus dat zijn momenten waarop spanning zou kunnen ontstaan. En ik kies er dan toch voor om niet te scherp in die reserveringen te gaan zitten, aan de lage kant zeg maar. We nemen liever wat mee naar volgend jaar, hè....dat we wat over houden.”

The researcher then asked what this conservative attitude meant; if it also implied making a higher accrual than necessary in the 'good' years:

[Researcher] "Well, you can be sure that you have accrued for all your expenses but it can also be the case that you think, well... in a specific year, I'm going to account for an extra accrual." [BUC_A] "Yes, no that is right. If we... in that case what you notice - and now we're in a phase where there's a lot of pressure on the results ... eh... I'll be the first one to say: I think we should be slightly less conservative, you know... or rather be more considerate in determining the amount of the estimate than before. Before it was like, eh... yes we already made an ROS of x% which exceeded the forecast. Let's make a prudent accrual, especially given the expectations relating to the next year... you see... so, indeed we did... not do this in such a way that it would lead to a different interpretation of the financial results, I would find that really wrong. But eh...xx euro more or less... eh that is less of an issue."

[Researcher] "Want ja, je kunt zeker zijn dat je alle kosten hebt gereserveerd maar het kan ook zijn van dat je denkt van nou....een bepaald jaar, ik neem wat extra kosten." [BUC_A] "Ja, nee dat klopt. Als wij... wat je dan eigenlijk merkt en nu zitten we in een fase waarin de resultaten zwaar onder druk staan eh... ben ik de eerste die zal zeggen; ik denk dat we nu wat minder scherp hè... of juist scherper in de bepaling van de hoogte van die voorziening zitten dan voorheen. Voorheen was het dan zo, van eh...ja we hebben al een ROS van x%, we hadden eigenlijk een forecast [*lager*] laten we maar iets meer reserveren, zeker als je weet dat de vooruitzichten van het jaar daarop.. he dus daar gingen we inderdaad... niet zo inderdaad dat er een hele andere interpretatie van de cijfers zou kunnen ontstaan, dat zou ik echt fout vinden. Maar eh...xx euro meer of minder eh... daar kijken we dan niet op."

BU controller A referred in this discussion to a 'margin of conservativeness', where it was possible to be more conservative in a 'good year' as long as it did not change the interpretation of the financial results. When the subject of materiality was discussed further, BU controller A also remarked that the extent of estimated accruals had decreased during the last years because the operating systems/processes recording the underlying data had considerably improved. Also, suppliers invoiced on a timelier basis:

“What you do notice is that eh... the operational data are more and more reliable. So we are improving all the time. This means that the margin you have for the accounting choices becomes increasingly narrower. So the quality of the system... we have been working with that data base for a number of years, eh... what we always do, we record the purchase prices. That system of recording is also increasingly reliable. And what is also important, if the suppliers invoice on a timely basis, then the accrued expenses are lower at the year end, so the estimated amount decreases every year. If that estimated amount decreases, you also have less margin available for your accounting choices.”

“Maar wat je echt ziet is dat eh... dat de basisvastlegging wordt steeds nauwkeuriger. Dus wij worden steeds beter, dus de marge waarmee je kunt spelen wordt steeds kleiner he? Dus kwalitatief is het hele systeem...we werken nu met die database een aantal jaren, eh....wat altijd gebeurt, wij voeren inkooprijzen in. De systematiek van die invoer wordt ook steeds nauwkeuriger. Eh...wat ook een heel belangrijk aspect is dat als leveranciers tijdig factureren en er ook veel minder eh.. hè wat er nog open staat aan het eind van het jaar. Dus dat zijn allemaal dingen waardoor uiteindelijk de reservering ook elk jaar kleiner wordt. Als het kleiner wordt kan er ook minder speling in zitten.”

In these deliberations, the controller describes the activities operational review, financial review, as well as overall review. BU controller A is conservative when making estimates and is therefore characterized as risk-adverse. BU controller A has a different treatment for month-end close and the year-end close or hard-close. At the hard-close, a more detailed review is performed, probably due to the corporate hard close instructions. The estimates at year-end are influenced by the financial results achieved compared to forecast. The other factors of influence on accounting choices relating to the timing of expenses emerging from this discussion is a combination of the function of the operating system and the knowledge of operational employees. Also, the timely invoicing of supplier affects the residual amount to be estimated. The choice process is summarized in Figure 9.

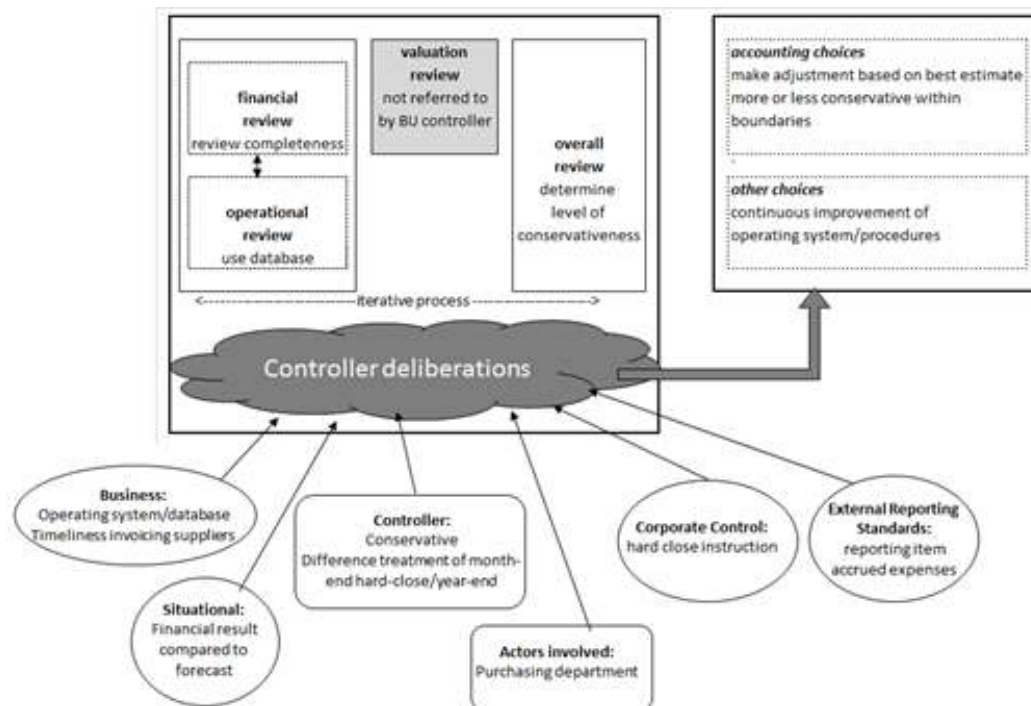


Figure 9 Accounting choice process of BU controller A relating to accrued expenses

5.5.2.2 *Deliberations relating to timing of various expenses of BU controller B*

The deliberations of the second BU controller, hereafter referred to as BU controller B, relate to the timing of various expenditures. This interviewee had a controller's background and had been supporting the BU for several years.

According to BU controller B, the accounting decision relating to accrued expenses at the period-end was generally very straightforward:

"We just eh... yes we just determine that based on experience, to the extent that we can estimate it. And we also immediately deal with it, in the sense that eh... if it turns out to be different than the estimated amount, then we immediately adjust it. We do not keep anything 'in the air'... I also make sure, that if you make an accrual in one month, then the next month it has to

"Dat laten we gewoon eh... ja dat laten we bepalen op basis van ervaring, hoever we dat kunnen inschatten. En we rekenen het ook snel af in de zin van eh... als het anders is geworden dan slikken we het door, of direct maar we houden niks in de lucht... Ik heb ook elke maand dat je iets reserveert en je krijgt dan de volgende maand dan is de opdracht van: volgende

be gone. Or you have to make a new accrual.”

maand wil ik ook dat ie weg is. Of je maakt een nieuwe reservering.”

The interview further revealed that BU controller B found that decisions relating to the timing of expenses in specific situations were not always straightforward. BU controller B discussed the deliberations relating to a complex situation where, due to changes in regulations, the expenses relating to specific services increased. The new regulation also resulted in an acceleration of the timing of incurring these expenses, whereas the timing of the revenue recognition for these services did not change:

“That immediately had an effect of xx euro. And of course that will be corrected in due course and then... well then I had a discussion with [BU administrator] about well... should we really smooth these expenses and relate them to the revenues? I said... well... we discussed the advantages and disadvantages. That’s something I can discuss easily with [BU administrator] and, on the other hand, [BU administrator] also informs me. And then I think, well, basically the choice is always easy. The main principle is: we always account for it; then we can discuss it later.”

“En dat had gelijk een effect van xx euro. En dat gaat zich dan wel weer corrigeren en dan... nou ja goed, dan heb ik zo met [BU administrator] een volgende discussie van ja, moeten we dat nu eigenlijk gaan nivelleren dat je zegt, nou moet ik dat nu weer terug gaan verwijzen? Ik zeg van nou... we hebben wat over de voor en de nadelen. Daar kan ik dan goed met [BU administrator] over sparren en [BU administrator] informeert mij aan de andere kant ook. En dan denk ik, nou ja goed... in principe is de keuze in die zin altijd makkelijk. Het principe is gewoon altijd zo: we nemen hem. Dan gaan we later wel discussiëren”

In both the above deliberations, BU controller B expressed a strong preference for accounting the expenses at the moment of incurring them as opposed to smoothing them. Interestingly, another accounting choice discussed by BU controller B was the change of timing of the expenses relating to a marketing stand that was going to be used for several years. In this case, BU controller B thought it was more appropriate to smooth the related expenses over time:

“At the [xx] trade fair you use a marketing stand; the supplier designs this stand, builds it and dismantles it every year. The following year, the supplier builds it again. Well, of course the initial expenses relating to designing the stand etcetera are the highest. So, initially these guys invoice large amounts and gradually that decreases. So, actually you account for these expenses as operational expenses. In my opinion... we have had that trade fair for three years and I think these expenses should be spread evenly over the years. So, I am creating a kind of suspense account in order to release these expenses gradually. In the old situation we had this stand for a long time. This was a choice that was made before my time. I always thought...but well, it was known that it was treated that way, so the auditors also knew. However, it has always troubled me. Anyway those expenses were accounted for in that way. But then I got the new invoices and I thought: how am I going to account for that? And then I discussed this with BU controller X and now I made the choice: I spread them evenly over the year.”

“Op de [xx] beurs daar zet je een stand neer. En die standbouwer die ontwerpt hem, die bouwt hem en die breekt hem ook elk jaar weer af. En die bouwt hem dan volgend jaar weer op. Nou de hoogste kosten zitten hem natuurlijk in het ontwerpen en dat soort dingen. Dus hoe factureren die jongens eigenlijk. Die factureren eerst heel veel en dan wordt het steeds minder. Maar goed dan maak je het eigenlijk operationele kosten. Ik heb zoiets, we hebben drie jaar die beurs en ik vind dat die kosten gelijkmatig moeten. In afwijking van factuur ga ik een soort tussenrekening maken zodat ik die kosten afschrijvingstechnisch... in de oude situatie hebben we de stand heel lang gehad, een keuze die eigenlijk al voor mijn tijd zijn gemaakt. Waarvan ik altijd zoiets had, maar goed men weet dat dat zo was, dus in die zin, richting de accountants. Maar dat was altijd een doorn in mijn oog. Dus die kosten liepen wel gelijk. Maar toen kreeg ik de nieuwe facturen en toen had ik zoiets van: hoe moet ik hier nu mee omgaan. En daar heb ik met BU controller X over gespard en dat ik nu de keuze heb gemaakt: ik spreid ze eigenlijk gelijkmatig over het jaar.”

In this case, BU controller B changed the method of timing the expenses when the situational circumstances provided opportune to do so. When a new stand was built, BU controller B seized

the opportunity to account for this in his/her preferred method. According to BU controller B, smoothing the expenses over the years better reflected the economic reality.

The above deliberations show that BU controller B has a strong preference for immediately accounting for the expenses incurred. On the other hand, BU controller B wants to reflect the financial situation of the business in the financial results, and therefore decides to smooth the expenses for the marketing stand over time. The preference for immediately accounting for expenses when they occur or smoothing them over a period thus depends on the type of expenses. The accounting choice process of BU controller B relating to the timing of expenses is summarized in Figure 10.

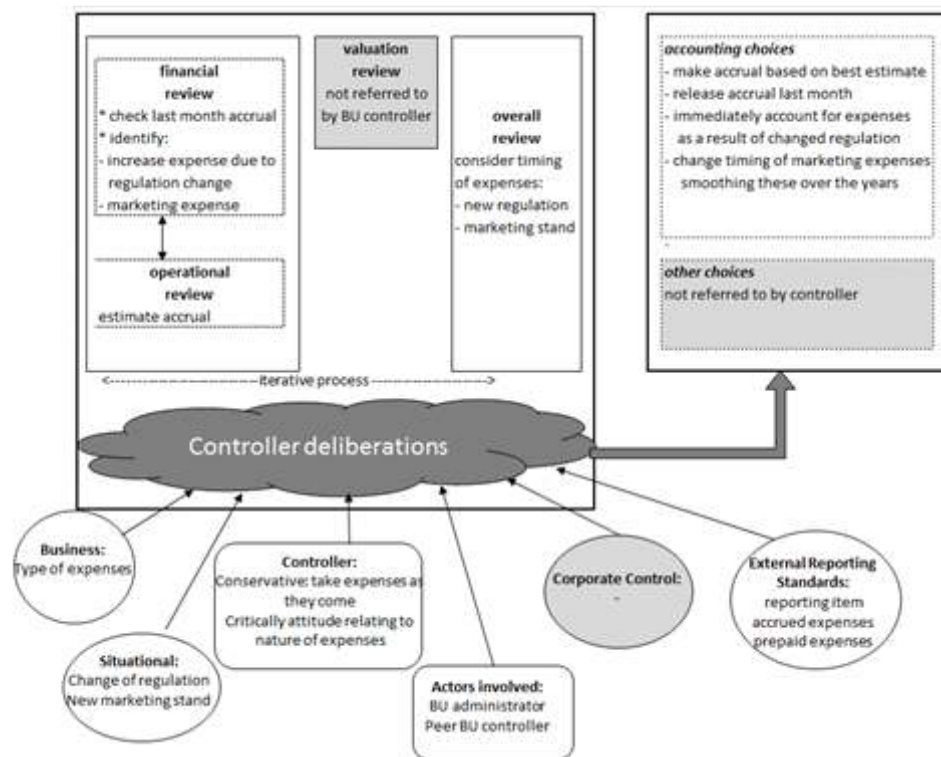


Figure 10 Accounting choice process of BU controller B relating to the timing of various expenses

In the above deliberations of BU controller B, relating to the timing of the various expenses, he/she referred to two other actors involved in the accounting choices: the BU administrator and BU controller X. BU controller X worked for a BU that was involved in the same type of activities as the BU of the interviewee. Below the involvement of the various actors in the accounting choices of BU controller B are further analyzed.

In every interview, the researcher asked the BU controller which other persons were involved in the accounting choice process. BU controller B noted that within the BU, three people were involved in the accounting decisions: the BU controller him/herself, the BU administrator, and the BU manager:

“Actually it is a three-some. [BU administrator] as chief administrator, who of course deals with a lot of administrative issues, margin analysis; actually with a large part of the preparation. I have to admit that I also have a lot of practical experience myself – that sounds pretentious – that I know what’s going on. Besides, I have the BU Manager - we are on the same wave length, decision wise. Anyway, I do agree things with him/her, in a very pragmatic way for the reporting. What’s happening today, what’s different from this time last year. We do that on a weekly basis, then we just look at revenue related issues. On a monthly basis we look more into the other expenses and the balance sheet. However, if something happens today, then we obviously discuss that. This is really the BU...the people I discuss things with directly.”

“Eigenlijk is dat een drietrap. [BU administrator] als hoofd administratie die natuurlijk heel veel administratieve zaken pakt, marge analyse eigenlijk een heel stuk van de voorbereiding. Ik moet eerlijk zeggen dat ik zelf wel een praktijkmens ben dat ik zelf ook wel veel - dat klinkt pretentius - dat ik weet wat er speelt. Daarnaast heb ik BU Manager. We zitten wel op één lijn, een gelijke beslislijn. Maar goed daar stem ik het wel mee af. Gewoon heel praktisch in de rapportage. Wat gebeurt er vandaag, wat is er anders dan vorig jaar om deze tijd. Dat doen we zelfs wekelijks, dan kijken we puur naar omzet achtige zaken. Maandelijks meer de indirecte kosten en de balans. Maar gebeurt er vandaag iets, dan praten we daar natuurlijk over. Dat is eigenlijk de BU, de spil waar ik heel direct mee praat.”

BU controller B then continued, explaining that he/she also discussed accounting choices with actors outside the BU, namely Division controller A and peer BU controller X:

“Then there is Division controller A, as controller; I regularly discuss things with him/her. Division controller A sets out the general direction that is presented in the

“Dan heb je Divisie controller A als controller, daar spar ik veel mee. Divisie controller A zet een lijn uit dat via het controllersoverleg komt. Als ik in

controllers meeting. If I consider his/her background, then BU controller X is an important sparring partner. To whom, just like Division controller A by the way.... every now and then I ask them something. Then, I pretend not to have an idea and I ask: what do you think? They know my position. These are the most important.”

achtergronden kijk dan is BU controller X is daar voor mij een hele belangrijke sparringpartner. Die net als Divisie controller A overigens, ik leg wel eens wat dingen bij hen in de week. Dan doe ik net of ik niks weet en dan vraag ik: wat vinden jullie? Ze weten ook hoe ik er in sta. Dat zijn de belangrijkste.”

Hence, BU controller B referred to four other actors involved in the accounting choice decision process: BU administrator, BU manager, Division controller A and peer BU controller X.

When discussing the specific accounting choices, BU controller B did refer to the involvement of BU administrator and BU controller X. BU controller X was consulted on his/her view on the presentation of ‘economic reality’ – such as the choice of timing of expenses of the marketing stand - whereas accounting technical matters were discussed with the BU administrator. In the interview, BU controller B referred to the cooperation with the BU administrator as follows:

“Of course, that’s very accounting oriented. You can distinguish between accounting and controlling. Controlling wise, I frequently, of course, work in a ‘solo function’. Let’s put it this way... that’s something which is true at a lot of companies. The department here is, of course, focused on accounting within the guidelines. And... eh well that... if you consider the guidelines, then there are specific issues relating to taxes, where you are confronted with onerous rules and of course there are accounting rules, which we have agreed with each other in the accounting manual. And also there are simply the rules of integrity, of course. Well,

“Dat is natuurlijk heel erg administratief gericht. Je kunt het onderscheid maken tussen administratief en controlling. Qua controlling ben ik dan veel vaker natuurlijk een éénpitter. Laat ik het zo zeggen...dat zul je bij alle bedrijven meer zien. De afdeling zoals je die hier ziet is natuurlijk echt gericht op het registreren binnen de richtlijnen. Eh... en ja dat... als je kijkt naar richtlijnen, dan heb je daar nog met een aantal dingen van belastingen, waar je eigenlijk heel erg in de zware richtlijnen zit en je hebt natuurlijk de richtlijnen zoals we dat met de accounting manual afspreken en gewoon ook natuurlijk de richtlijnen dat

you know it's not like we talk to each other about these on a daily basis."

je integer bent. Nou ja, weet je dat zeggen we niet dagelijks tegen elkaar."

Interestingly, for none of the specific accounting choices discussed, did BU controller B refer to the involvement of Division controller A. Moreover, BU controller B only referred to the BU manager for one accounting choice. This was an accounting choice relating to a valuation issue of 'other receivables'. In this situation, the BU administrator had provided a signal to the BU controller about potential problems with this receivable. BU controller B decided to provide for the amount, and discussed the issue with the BU manager after the adjustment had been accounted for.

"BU administrator signals the issue. Initially I didn't notice it because I'm not so deeply involved in the bookkeeping activities. Then you get the discussion: should you immediately provide for it or should you wait a little until we've discussed it. Well, I said we should immediately account for the loss. Subsequently I did talk to the BU manager and the product manager, asking why it happened this way. I want to have an answer to that."

"BU administrator signaleert dat. Dat zie ik niet in eerste instantie, zit ik niet diep genoeg in boekhouding. Dan krijg je discussie; moet je dat meteen als verlies pakken. Of moet je even wachten tot we de discussie zijn aangegaan. Nou, ik heb gezegd we pakken hem nu als verlies. En vervolgens heb ik wel tegen BU manager en de productmanager gezegd van waarom is het zo geworden en niet zo. Daar wil ik wel een antwoord op hebben."

The BU controller thus discussed the above situation with the BU manager and product manager in order to understand how this could have happened, rather than discussing the accounting choice itself.

The above deliberations show that, depending on the circumstances, the BU controller involves different actors in making accounting choices. Moreover, actors are sometimes confronted with the accounting choices incurred rather than involved in the accounting choice process itself.

5.5.3 The provision for obsolete inventory

This section discusses accounting choices relating to a provision for obsolete inventory. Three interviewees discuss the provision for obsolete inventory. They all have their own views on the estimated amount to be accounted for in the financial statements. Interestingly, they are all

convinced of their own estimate and suspect other actors who have a more conservative approach to have an underlying motive of earnings management.

5.5.3.1 *Deliberations of BU controller A*

BU controller A, who has been working for this BU for several years, had prepared an estimate for the provision for obsolete inventory and made an adjustment to the provision in line with this estimate. BU controller A was overruled by BU controller B, the finance superior of A, who made an additional provision. BU controller A reflects on this additional provision and explained that this was too conservative, as the businesses had taken action by lowering the new purchases, stimulating sales of the current items in stock. He/she had taken these lower level of purchases into consideration when determining the provision:

“An additional provision for obsolete inventory was made - obsolete inventory - more than we had counted on. I didn’t agree to that. We had already taken that into account with the purchases for the next season. However, at that moment, it was decided to account for an additional provision because it was strategically interesting to manage the 2011 result downwards and show an increase in 2012. That’s nice for the business, that’s the way it works. They want to show a positive result and have a basis for intervening and therefore increase the provisions. I think that a part of the provision will be released this year.”

“Toen is voor de overige voorraad nog een extra voorziening getroffen. Meer dan dat wij rekening mee hadden gehouden. Ik was het daar niet mee eens. We hadden met inkopen voor het huidige nieuwe seizoen al rekening mee gehouden. Maar goed op dat moment werd besloten om meer voorziening te treffen vooral omdat het strategisch handig was om resultaat van 2011 zoveel mogelijk te drukken en 2012 weer groei te laten zien. Dat is mooi voor de business, zo werkt dat gewoon. Die willen graag een positief resultaat zien en onderbouwing voor ingrepen en dus voorzieningen treffen, ik denk dat er dit jaar wel weer een stuk vrijvalt.”

BU controller A’s opinion was that the amount that was finally provided for was too prudent, and that the provision was increased in order to build some ‘reserves’.

5.5.3.2 *Deliberations of BU controller B*

BU controller B, the finance superior of BU controller A, who was also one of the interviewees, explained his/her deliberations about that same provision:

“Yes, with the knowledge we had at that time, we decided on an amount. There I see, if we refine the method, that we should have increased it slightly. Eh...we will, we now have that insight, and we also do that. Eh... it also depends on the sales; how much will you still sell of your obsolete inventory. What is the quality of your inventory?”

“Ja, daar hebben we met de inzichten die we toen hadden iets vastgesteld. Daar zie ik wel als we het verfijnen dat we hem nog wat hoger hadden moeten vaststellen. Eh...dus dat zullen we ook, nu het inzicht dat we hebben zullen we dat ook gaan doen. Eh...hangt ook af van de doorverkoop. Hoeveel verkoop je nog van de oude voorraad. Hoe is de kwaliteit van je voorraad.”

BU controller B hence did not try to ‘build reserves’ but tried to make a best estimate of the provision with the available knowledge at the year-end. Moreover, he/she even thinks the provision should have been slightly higher, given current insights.

In his/her turn, BU controller B thought that corporate finance staff wanted to manage earnings and ‘build reserves’ by pressuring BU controller B to increase the provision:

[Responding to the question of the researcher whether BUCb was not put under pressure by CS to increase the provision]. “Yes, and relating the provision for obsolete inventory I said: I want to keep up the pressure in this organization and I’ll not give into the building of reserves. And eh, well it was said: just increase it with *[amount]*. But I don’t think....my *[BU]* manager also said: “Can’t we do that?” Then I said: “Just take a step back, this is a discussion among financials.” Then I looked into how I could decide on that provision *[explains details of some specific items]* And with the other inventory it was really... I felt the pressure

[Op de vraag om of BUCb onder druk werd gezet door CS om hogere voorziening te nemen]. “Ja, en van de voorraden heb ik gezegd: nou ik wil een gezonde spanning in deze organisatie hebben en ik ga niet toegeven aan potjes bouwen. En eh...nou ja er werd wel gezegd: plug er nog maar een *[bedrag]* bij. Maar dat vind ik niet...en mijn *[BU]* manager zei ook al van: kunnen we dat niet doen?. Ik zei van: even aan de zijlijn, het gaat even om de financials discussie. Toen heb ik gekeken hoe kan ik dat nou vaststellen *[uitleg hoe vastgesteld]*. Eh...bij de andere handel was het echt, ja ik voelde de druk in de organisatie: we moeten

in the organization; we have to go for it and sell this stuff. If I had made a provision, the behavior would have been different. And that's what CSx [corporate staff] asked me: BUCb why didn't you do that? [*increase the provision*] I said, CSx, you may call me a dumbo, but I think...you know, if you want a lazy organization then you should do just that. But that's not my way of doing things."

beuken, we moeten rammen want er moet handel uit. Als ik een voorziening had gehad dan was er een ander gedrag geweest. En dat heb ik ook... CSx [corporate staf] zegt ook tegen mij: BUCb waarom heb je dat niet gedaan. [*voorziening verhogen*] Ik zeg: CSx, je zit er anders in dan ik, he jij mag mij dom noemen, mag je doen. Maar ik vind dat je, weet je, als je een luie organisatie wilt, dan moet je dat doen. Maar zo zit ik er niet in."

In the above deliberation, BU controller B indicated that he/she also considered the impact of a provision on the behavior within the business, and was therefore reluctant to make the provision too high.

5.5.3.3 *Deliberations of corporate finance staff x*

Corporate finance staff X, the corporate staff member referred to by BU controller B, was also one of the interviewees, and also discussed the same provision: he/she had another view on the situation:

"And I think that in the end, our provision is still not adequate if I consider the actual developments. But I did ask critical questions on a regular basis. And there's a moment when the business says: this is it, this is just what it is worth and eh...that you say: well, if you all think that this is the value. I did discuss this with the CFO: I think the value could be lower. The CFO agreed, but at the end it is the business that decides."

"En ik denk dat we uiteindelijk nog een te lage voorziening hebben. Als ik naar de huidige ontwikkelingen kijk, maar ik heb wel telkens kritische vragen gesteld. En er komt een moment dat de business zegt: dit is het, dit is het gewoon waard en ... eh dat je dan zegt: nou ja als jullie allemaal vinden dat dit het waard is. Ik heb nog wel bij [CFO] neergelegd: ik denk dat het nog lager zou kunnen zijn. Dat vond [CFO] ook, maar uiteindelijk is het dan toch de business die daar de doorslaggevende factor geeft."

The above indicates that corporate finance staff x was also not trying to build reserves, but sincerely thought the provision was not prudent enough. Interestingly, corporate finance staff X

indicates that it is not the CFO who made the final decision, but that it is the business that decides. This is in line with the dominant 'professional logic' referred to in Chapter 5.1.

5.5.3.4 *Different views on the amount, underlying motivations and dominant logic*

The above deliberations of three interviewees relating to the same provision show that the professional judgment relating to the estimates of provisions varied considerably. BU controller A, being the closest to the business and having worked there for a number of years, was convinced that the final provision provided for is too conservative. On the other hand, corporate finance staff X was convinced that it was not conservative enough. Interestingly, the more or less conservative approach of colleagues was not accepted by the interviewees, as they suspected earnings management motivation for this more conservative approach.

Also the underlying motivation for making a provision varied. BU controller B referred to influencing behavior and calculated that making the provision too high would reduce the incentive in the business to sell it for a good price. Although the interviewees suspected the more conservative approach of the others to be motivated by earnings management, none of the interviewees mentioned the intention to build reserves. In contrast, they were concerned about the risk of the provision being too low.

Finally, corporate finance staff and the CFO did not overrule the business, but considered the business to be the expert in determining the provision, which is in line with the dominant 'professional logic'.

5.5.4 Summary

The accounting choice process is not straightforward and it is not possible to determine a direct relation between factors of influence and the final accounting choice incurred. Combinations of factors and circumstances influence accounting choices. Moreover, for different choices the BU controller involves different actors in the decision-making process. BU controllers have different intrinsic drives for making accounting choices and make different professional judgments relating to the value of balance sheet items. Although interventions or proposed interventions sometimes have the appearance of earnings management, they are not necessarily intended to manage earnings. Based on the accounting choice itself, it is therefore impossible to determine whether the intention is to manage earnings or whether other intentions are involved. The deliberations in this chapter confirm the dominant professional logic in the accounting choice process.

6 DISCUSSION, LIMITATIONS AND CONCLUSIONS

This research aims to provide insights into the accounting choices of controllers and addresses the following three research questions:

1. What accounting choices are available to controllers?
2. How are accounting choices made by the controller?
3. What factors affect the accounting choices of controllers?

The findings in Chapter 5 answered the three research questions in the specific empirical setting. An analytical framework²⁰ was designed to analyze the findings.

The *accounting choices available* that were identified fell into two broad categories: 'adjustment' or 'do nothing'. Adjustments relate to the change in valuation of assets and liabilities, the timing of revenues and expenses, and classification adjustments. The 'do nothing' is not necessarily a passive option, but sometimes also involves considerable deliberation whether or not to make an adjustment, and finally deciding to do nothing.

The empirical findings provide insights into *how accounting choices are made*. An accounting choice process emerged from the findings, identifying four categories of activities: operational review, financial review, valuation review, and overall review. These activities are strongly interrelated and not necessarily sequential. The controller deliberations play an important role in the accounting choice process. These deliberations either follow a routine pattern or are case specific for a particular accounting choice. Controllers also make choices as a result of rule based behavior. Furthermore, different controller styles were identified - a financial accounting style and a management control style – with different accounting choice patterns.

Factors affecting the accounting choices of controllers were also identified. The accounting choice process is, however, not a straightforward process where specific factors lead to a predicted outcome. Besides being influenced by the controller-related factors, accounting choices are influenced by a multitude of other factors. These factors together form a 'unique' setting for the specific accounting choices the controllers have to make. Moreover, differences in both technical financial accounting knowledge and interpretation of the accounting standards

²⁰ The analytical framework is outlined in the beginning of Chapter 5, Figure 4.

lead to different accounting choices made by controllers, and different perceptions of the boundaries of these choices. Finally, a number of new factors influencing accounting choices were identified. The quality of the operational systems and processes is, for example, an important element in the quality of the reported earnings. If these systems/processes do not function properly, additional estimates of accruals have to be made due to a lack of information.

In this chapter, the first section discusses the findings relating to the ‘black box of the accounting choices of controllers’. This is followed in Section 6.2 by an analysis of the theoretical implications of these subjects, and in Section 6.3, by an analysis of the practical implications of this research. Finally, the limitations of this research and the concluding remarks are presented in 6.4.

6.1 OPENING THE ‘BLACK BOX’

This section first reflects on the *process* of opening the black box, the journey of discovery. The second section elaborates further on the *content* of the black box.

6.1.1 Personal reflections on the journey of discovery

This research led to taking another route than originally planned, as using an economic perspective – which was an important basis of the original itinerary - did not fully explain the findings. Therefore the journey was rescheduled and the institutional logics perspective was included. This section reflects on the underlying philosophy of the researcher: does the journey of discovery also imply a change in the philosophical assumptions of the researcher?

The researcher is a practitioner working in a variety of finance functions for a variety of organizations, for over 25 years. A key element of working in finance as a practitioner is the use of planning and control cycles: goals and targets are defined in the planning phase and the outcome is reported in the control phase. Reporting criteria are defined (internally and externally) and can be considered as a ‘socially constructed reality’ for the group of individuals working with these planning and control cycles. The individuals are thought to have the same ‘lived experience’ relating to the reporting criteria. As explained in Section 4.1.2 Shapiro’s (1997) line of reasoning appeals strongly to the researcher. Another important aspect of working in finance is the assumption of accounting choice behavior from an economic perspective. The choice alternatives are identified and the ‘best’ alternative is chosen, weighing

the costs and benefits of each alternative. Yet, everyone who has worked for a long time as a practitioner has experienced that decisions do not always seem to be based on an economic perspective. Thus, as a practitioner, it is important to find ways to create settings that ensure that actual behavior is aligned with the envisioned economic behavior.

The academic reader might tend to classify the researcher in the 'positivist box' based on the above description. The approach of the researcher is, however, interpretive. As outlined in Section 4.1.2, the researcher continually questioned her own interpretation of the findings: did they reflect the 'lived experience' of the participants in this study? Measures were defined, described in Chapter 4, and followed up to justify the research results. The underlying philosophical assumptions of the researcher have thus not changed. In contrast, the journey of discovery is a reflection of the interpretive approach of the researcher.

The journey did, however, change the researcher's view on the assumed 'social constructed reality' on accounting choices. The 'lived experience' relating to accounting choices was not the same for the participants, but sometimes varied considerably. Also, the accounting choice process was far more complex than the researcher could have imagined at the start of the research.

The next section further discusses the contents of the black box.

6.1.2 Revelations of the 'black box'

The findings reveal that the accounting choice process is complex and that accounting choices are made in specific settings that influence these choices. Studies identifying determinants and predicting the outcome of accounting choices, such as mainstream earnings management studies, neglect this process and the complex setting in which accounting choices are made. Findings from these type of studies neglect the underlying complex dynamics that drive the accounting choices. By analyzing BU controller deliberations, this study revealed that 'some things are not what they seem to be':

- The do-nothing-choice is not necessarily passive but can be an active intentional choice;
- The adjustment-choice is not necessarily deliberated, but can be a result of rule based behavior;
- The best estimate for a provision is not necessarily the same for every individual, and can even vary considerably.

Considering the influence of the complex setting of BU controllers and the signaled differences in behavior, interpretation of accounting rules and professional judgment of BU controllers when making their accounting choices triggers a discussion relating to the subject of the BU controller's perceptions of *'representing a true and fair view' in the financial statements*. Also the (underlying) subjects of *rule based accounting choice behavior* and *the knowledge and interpretation of accounting rules* are interesting subjects for further discussion.

The above-mentioned differing views of interviewees on the 'best estimate' of a provision is influenced by information asymmetry between the Business Units and corporate staff. The business oriented role of the controller and the dominant professional logic within the organization facilitates optimal use of the information available within the BU when making accounting choices. Nonetheless, BU controllers involved in the BU decision-making process may have a less critical attitude related to those business decisions. The signaled 'competing logics' also play a role in the accounting choice process. On the one hand, BU controllers are expected to solve their own professional problems within the Business Unit, and on the other, BU controllers are expected to show full transparency. *The dominant logics* within an organization and awareness of its influence on accounting choices of BU controllers is therefore also a subject addressed in the next section.

When making their accounting choices, BU controllers decide whether or not the operational systems are reliable. Sometimes additional accounting adjustments have to be made because the systems do not function optimally. Also, it may be more difficult to assess the valuation of assets because the required management information is not available. Consequently the *operational systems* have an important impact on the quality of the financial statements.. However, not only the influence of the systems is interesting. Also *BU controller behavior relating to shortcomings of the systems* are worthwhile of further reflection. The empirical findings showed that some controllers tried to change the system, whereas others did not, or they had not succeeded and eventually accepted the system as it was.

Finally, the dominant research approach in mainstream accounting research relating *determinants to predictable outcome* deserves further attention. The findings reveal that the accounting choice process is such a complex process that isolating one factor and determining its effect is an almost impossible task. Also the method of *identifying abnormal accruals* based on archival financial analyses can be viewed in a different perspective. A lack of abnormal

accruals can also be a sign of earnings management: perhaps preparers considered making an impairment, but finally opted for the 'do-nothing' choice.

These topics are discussed in the next section.

6.2 THEORETICAL IMPLICATION OF FINDINGS

6.2.1 The 'true and fair view' perception

As outlined in Chapter 2.1, financial statements have to provide a *true and fair representation of the corporate (or BU) financial position*'. Opening the black box of the accounting choice process leads to three considerations relating to the perception of a 'true and fair representation of the financial position of the BU' (hereafter referred to as 'true and fair view').

First, an important new element in the accounting choices revealed by this empirical research material is the deliberation relating to an 'adjustment' versus a 'do-nothing' decision. For example, deliberating whether or not to make an impairment or change an accounting method because it may better represent the financial position of the entity. In principle, the choice 'to do nothing' does not qualify for the definition of accounting choices used in this study based on that of Fields, Lys and Vincent (2001): a decision that influences the output of the accounting system, being the (published) financial statements. If the controller decides to do nothing, he/she does not actively make an adjustment. And yet, controllers deliberated and discussed some accounting choices, wondering whether or not to make an adjustment, and finally consciously decided not to make an adjustment. One controller even perceived having managed earnings by consciously deciding to follow the revenue recognition principles of previous years, i.e. by doing nothing. Hence, 'doing nothing' can involve an active choice. Furthermore, the empirical findings revealed that professionals can have considerable differences in opinion relating to whether or not to make a provision (Section 5.3.2). Also, BU controllers seem to have different boundaries as to what they consider a 'grey area' or a 'black and white'. Other research models that analyze accrual movements in financial statements and/or use surveys asking controllers to evaluate hypothetical accounting choices, do not reveal the above findings. Although the findings of this research are only valid within the context of the domain studied, research exploring accounting choice behavior of controllers in other contexts can further enrich financial accounting knowledge. Findings of earnings management studies that debt covenants (Jha, 2013; Wang & Lin, 2013) and earnings around zero (Burgstahler & Dichev, 1997)

influence accounting choice behavior could, for example, be enriched by interpretative research into accounting choice behavior of controllers in these types of situations. This would provide further insights into the perceptions of individuals relating to the boundaries of earnings that are available within GAAP in these type of situations.

Second, the above-mentioned different perceptions of BU controllers relating to the boundaries of the accounting choices, the 'grey area', was found to be influenced by controllers' rule based behavior. This relates to the first stage – rule following mode - of the dual mode rationality discussed in Section 3.1. This first stage, shaping the decision room, was different for the various BU controllers. Section 5.2.3 describes how one controller reflected on this rule based behavior when a director made him/her conscious of this rule based by asking for the reason for his/her choice. Section 5.3.2 describes how a controller made an adjustment – an accrual for project cost – without realizing that this was not 'within GAAP' adjustment. Another controller did not make an adjustment, but accounted for the rental-discount 'as it came' - at the moment of the invoicing - whereas he/she should have made an adjustment spreading the discount over the contract period. Hence, the adjustment choice (or the do-nothing choice) is not always a deliberate choice of a controller, but is also found to be a result of rule based behavior based on past experience. This research was not designed to specifically identify all the types of rule based behavior of BU controllers. Using an observer method would have been better for this purpose as the data gathered are 'closer' to the controller's real behavior and more likely to reveal other rule based behavior decisions. Performing the same type of research from the perspective of rule based behavior would be an interesting area for further research in order to identify how this leads to different accounting choices by controllers, and thus give another presentation of their perceived true and fair view.

The third consideration relates to the differences in opinion relating to 'the best estimate' of a provision. Section 5.5.3 describes the deliberations of three interviewees relating to the same provision for obsolete inventory, and reveals that individuals can have a considerable difference of opinion of what – in their perception – is the right amount for a provision. Since they perceived their opinion as 'the truth', the opinions of other individuals were considered to be driven by an earnings management intention. The findings thus reveal that different individuals have different perceptions relating to the same accounting item. This confirms findings by Kepsu (2012), that accounting estimates are actor-dependent and that "correct estimates are

not unambiguous” (p. 67). These different perceptions may (partly) be caused by their personal characteristics such as conservatism and critical attitude. This is difficult to establish on the basis of this research, since the personal characteristics of the interviewees were not specifically studied. The influence of information asymmetry on these different estimates is discussed in Section 6.2.2. This is based on the contextual difference between the three interviewees: their ‘distance from the business’.

To summarize, the ‘true and fair view’ is an individually perceived phenomenon influenced by the preparer of the financial statements and the context in which the accounting choices are made. Earnings management focuses on accounting choices that are made in order to “obscure or mask true economic performance”. This research reveals that presenting a ‘true economic performance’ is a challenge in itself. Taking a step back and focusing on how individuals perceive a true and fair view and how the context in which they make their accounting choices influences this perception is therefore a useful contribution to existing financial accounting research.

6.2.2 Dominant logics and accounting choices

The context of this research was a business oriented role of the BU controller combined with a professional logic where BU controllers are expected to use their professional judgment in their accounting choices, set their boundaries, and present the financial outcome of the BU in a consistent way. BU controllers perceived that they had, to a large extent, freedom in making their accounting choices. On the other hand, the empirical findings also revealed a ‘corporate staff logic’ which assumes full transparency, including the communication of the available BU accounting choices at a corporate level. This logic competes with the expected professional behavior of BU controllers. On the one hand, BU controllers are expected to solve their own professional problems within the Business Unit, and on the other, BU controllers are expected to show full transparency. In this section, two considerations relating to this context are further discussed.

First, the differences in perception of three interviewees relating to ‘a best estimate’ of a provision referred to in the previous section are analyzed in the light of the business oriented role of the controller. The contextual difference of these interviewees was their ‘distance from the business’. The further the distance of the interviewee from the business, the more conservative the estimate of the required provision for obsolete inventory. The advantage of

business orientation within the organization is the access to and use of business knowledge in accounting decisions relating to, in this case, the provision for inventory. Due to information asymmetry, corporate staff have limited access to such knowledge. On the other hand, the controller can be so involved in the business and the business decisions, that he/she becomes less critical in the valuation review of assets because of a strong belief in the actions taken by the business. In their article 'Executive overconfidence and the slippery slope to financial reporting', Schrand and Zechman (2012) conclude that overconfident executives are more likely to have an optimistic bias in their reporting, which is not necessarily intentional. Bouwman (2014) found that CEO optimism was positively associated with earnings smoothing and smaller (in absolute value) earnings surprises. These findings can also be applied to a BU manager, being the 'CEO' of the BU. The empirical findings confirmed the findings of existing research relating to the influence of the BU manager in the accounting choice process. If a controller is part of the BU management team, and is very confident of the BU manager's (and the management team's) strategy, this may result in a similar optimistic bias in reporting, as signaled by Schrand and Zechman. It should be noted that this is a tentative explanation: as outlined in Section 5.5.3 other individual controller-related factors also influenced their deliberations. It would, however, be a research opportunity to follow up this subject since it provides another perspective on the discussion of 'role conflict' of controllers due to their business partner role and their functional role. In this line of reasoning, the controller may have an optimistic bias in the financial reporting without perceiving a role conflict, since he/she perceives the reported numbers to reflect the 'true and fair view' of the BU.

Second, the context of the competing logics is an interesting subject to study further. BU controllers have more information about the BU situation than corporate finance staff. BU controllers therefore have to decide to what extent they want to share this information and what information they share with corporate finance staff. Section 5.1.2 outlines how BU controllers discussed dealing with 'surprises', these being major variances from the expected outcome. This involved not immediately reporting unexpected variances, but first investigating the underlying reason for these variances, and also the smoothing of fluctuations in results as far as allowed within the accounting standards, in order to avoid extreme reactions within the organization. The line of reasoning of the BU controllers is consistent with findings by J.R. Graham, Harvey and Rajgopal (2005) relating to the tendency of CFOs to smooth earnings: "The

interviews reveal a persistent theme among CFOs: “the market hates uncertainty.” Without exception, every CFO we spoke with prefers a smoother earnings path to a bumpier one, even if the underlying cash flows are the same. In general, this preference is as obvious to them as saying, “good is better than bad” ” (pp. 47-49). Smoothing earnings decreases the transparency for corporate finance staff. Combined with the possible optimistic bias of BU controllers, it is understandable that this causes an uneasy feeling for corporate finance staff. On the other hand, corporate finance staff assume that BU controllers are professionals and are able to use their judgment to present the results in a consistent way, reflecting the financial position of the BU. Awareness of these two competing logics within an organization and their effect on accounting choices is thus important. Further research into the influence of these competing logics on accounting choices would be valuable.

With respect to this subject, De Loo et al. (2006) revealed different behavioral patterns of controllers relating to the sharing of information. They found that controllers either fully shared (relevant) information with higher levels in the organization, or only partly shared this information. The empirical findings of this study revealed two different styles of BU controllers, the ‘financial accounting style’ and ‘management control style’: the latter focused on the overall review, and had a tendency to make accounting choices resulting in smoothing expenses and revenues. The question is whether these two different styles are influenced (or caused) by the patterns identified by De Loo et al. The relation of these BU controller styles and the identified patterns of information sharing behavior is an interesting avenue for further exploration.

6.2.3 Operational systems and accounting choices

The empirical findings of this research revealed the importance of operating systems and processes for the accounting choice process. When a BU controller decided that the information provided by the operating systems was not complete or reliable, then additional estimates were made to determine the accruals. Moreover, for accounting choices relating to the valuation of assets - such as a provision for obsolete inventory – the availability of operational information in order to make such a choice was found to be an important element. Hence, the quality of the operating system and the generated information is important for the quality of the reported earnings.

In their opinion, auditors make a reference to their review of the internal control within an organization. Organizations reporting under US GAAP are obliged - pursuant to Section 404 of

the US Sarbanes-Oxley Act - to include a 'Management's report on internal control over financial reporting' in their annual accounts. Although they do directly or indirectly address the underlying operating systems and processes in this report, this is often at a very global high-level. Yet, there must be differences in the functioning of these systems between organizations, resulting in differences in quality of reported earnings. In this context, research by Janvrin and Mascha (2014) is interesting. They studied the financial close process by conducting a field investigation with CFOs from 22 organizations. Fourteen of these participants noted that their financial close processes were highly dependent on multiple systems which "were often patched together rather than being carefully integrated" (p. 12). Besides being a risk for the timeliness of the financial close process, this may also influence the quality of the reported numbers. Although a great deal of research relates to the quality of systems and the quality of financial reporting within the individual research areas of Accounting Information Systems and Financial Accounting, it is surprising that more studies have not been performed combining these two areas of research.

Another consideration is the controller behavior relating to shortcomings of these systems. The empirical findings revealed that some controllers changed the system or tried to change the system, whereas others accepted the shortcomings. It is beyond the scope of this study to analyze the reasons for this difference in behavior, and yet this is another area which is interesting to further research. Studying these type of choices from an actor-network perspective may for example provide new insights into this behavior.

In a broader context, the functioning of operating systems and processes is also important for the quality of management information. The empirical findings reveal the necessity of management information for accounting choices relating to the valuation of assets, such as a provision for obsolete inventory. Standard setters underlined the importance of management information for financial reporting by implementing IFRS 8, requiring organizations to disclose segment information that is actually being used internally by management. In their post-implementation review, the IASB (2013) stated what their expected effect of IFRS 8 was: "When we developed IFRS 8, we thought that it would allow investors and other users of financial statements to see the entity's operations from a management perspective. This would enable investors to understand the risks that management face each day and to assess how well those risks are managed" (p. 10). IASB conclude in their report that, on an overall-basis, the standard

has achieved the expected objective. The IASB report is supported by academic research and working papers relating to the implementation of IFRS 8. Academic research studying the relation of management information and financial reporting on a more general level is, however, more difficult to find. Weißenberger and Angelkort (2011) studied the effects of integration of management accounting systems and financial accounting systems. They found that it was not so much the technical integration of the systems, but rather the mediating influence of a 'consistent financial language' that increased the controller's effectiveness²¹. Their research was performed from the perspective of the quality of *management accounting*, and not from the perspective of financial accounting.

Combining the research areas of accounting information systems and financial accounting, it would be interesting to further explore the above-mentioned subjects. This confirms Granlund's (2011) conclusion, that management accounting researchers should focus more on the IT aspects in their research and that accounting information researchers should focus more on accounting issues in their research.

With hindsight, the influence of (the quality of) the operating systems and processes on accounting choices and financial reporting seems logical and obvious. Still, when performing the literature review, this was not found as a subject of study in relation to accounting choice behavior. This is discussed in the next section.

6.2.4 Complementing mainstream accounting research findings

This section discusses the additional insights that the empirical findings provided relating to the mainstream accounting research findings. First, this section outlines the findings that relate to the factors influencing accounting choices in relation to the factors identified in the literature review. This is followed by a discussion of the findings in relation to research methods based on archival analysis of abnormal accruals in financial statements.

As outlined a number of times in this thesis, the accounting choice process is complicated and not simply a matter of identifying factors and outcomes. It is the complex setting and the combination of factors that lead to the final accounting choice. The months of coding efforts, trying to identify factors, and unsuccessfully trying to relate them to an accounting choice, have

²¹ The method used in this study was a survey. Controller effectiveness was measured by 'output quality' and by 'controllershship impact on management decisions'.

nevertheless been valuable, as new factors have been identified, and other factors were found not to be applicable in the context of this research.

Frequently mentioned factors that were not identified in the literature review were the influence of the operational systems and processes and the influence of corporate accounting instructions. The corporate accounting instructions are characterized in this research domain by freedom in accounting choices but with strict and tight planning and control deadlines. Also the use of the business administrator as a sparring partner for the controller was an unexpected factor of influence. The role of the business administrator may be context specific due to the business oriented role of the controller within the organization. In general, the dominant logic in the organization, i.e. that of a professional logic with a business oriented approach, had an important influence on the accounting choice process.

Another aspect emerging in virtually every controller interview was the different approach of month-end and year-end accounting choices. Although the characteristics of the accounting choice were not used in the initial theoretical framework for analyzing the factors involved, they emerged from the empirical data and confirmed findings by Merchant et al. (1994) relating to the influence of the characteristics of an accounting choice and the perceived acceptability of earnings management. Their finding that the judgment was affected by the characteristics materiality and timing (quarter-end versus year-end) were confirmed in this study. The characteristic 'purpose' – being an increase in bonus - which Merchant et al. found to influence the judgment was not confirmed, probably due to the context of this research. The organization does not appear to have a strong bonus-driven culture.

A factor that was expected to be identified but which was not revealed by the empirical findings was the influence of 'previous experience as an auditor'. This factor did not specifically influence accounting choices. It was rather the combination of personality, previous work experience, and knowledge that affected the accounting choices and also resulted in a controller style. In the light of this finding, it would be interesting to further research how these different factors influence the decision-making process. Surveys used in previous studies that concentrate on one or two of these factors, only 'tell part of the story'.

Appendix 4 provides an overview of the findings relating to the factors of influence. As stated before, these factors have to be considered within the context of this research.

Earnings management research, which focuses on studying accounting choices, predominantly uses archival research analyzing financial statements in order to identify 'abnormal accruals'. The empirical findings revealed that an accounting choice 'to do nothing' can be the result of a careful deliberation whether or not to make an adjustment. A consistent level of accruals²² does therefore not necessarily imply that the quality of earnings is unchanged, or that earnings are not managed; perhaps an impairment or a change of accounting method was deliberated in order to better reflect the financial position of the entity, but the final decision was to postpone this adjustment. Also, the importance of operating systems and processes in the accounting choice process was identified. The functioning of these systems/procedures influences the type of accruals and the composition of the accruals. The example given in Section 2.1 (Figure 3) is used as an illustration. In this example, the accruals of one situation, where all sales are invoiced at period end, are compared with another situation, where all sales are not yet invoiced at period end.

| | Case | Balance Sheet | Profit & Loss |
|---------------------------------------|------|---------------|---------------|
| Sales | 1000 | | 1000 |
| cash received = cash on balance sheet | 500 | 500 | |
| accrued income | | | |
| invoices outstanding | 500 | | |
| less: bad debt | -100 | | |
| debtors on balance sheet | 400 | 400 | -100 |
| net income = equity on balance sheet | | 900 | 900 |

non-discretionary

accrual

| | Case | Balance Sheet | Profit & Loss |
|---------------------------------------|------|---------------|---------------|
| Sales | 1000 | | 1000 |
| cash received = cash on balance sheet | 500 | 500 | |
| accrued income | 100 | 100 | |
| invoices outstanding | 400 | | |
| less: bad debt | -100 | | |
| debtors on balance sheet | 300 | 300 | -100 |
| net income = equity on balance sheet | | 900 | 900 |

discretionary

accrual

Figure 11 Different types of accruals in two situations

Although the total amount of accruals is the same, the types of accruals are different and the quality of the accruals can be different depending on the functioning of the operational systems/processes. If the operational information of sales to be invoiced is available and can be reconciled to the amount of accrued income in the income statement, then the accrual 'accrued income' is non-discretionary. If the operational information is not completely available, for example due to timing differences in the closing of operational system, which was the case for a

²² Taking into consideration the change of accruals relating to changes in activities, such as revenue growth.

system used by one of the controllers, then the amount to be invoiced partly involves making an estimate, thus becoming a discretionary component of the accrual. Therefore, when analyzing financial statements, not only the trends in accruals is important, but also the composition of these accruals. Impairment decisions and changes in accounting estimates influence the financial statements but are difficult to evaluate for completeness and timeliness on the basis of archival analysis. Also, determining the non-discretionary and the discretionary element of an accrual is difficult to establish for some accruals.

To summarize, research into accounting choice behavior of controllers by studying their choices and deliberations when making these choices provides additional insights into earnings management research. Extending archival analysis of financial statements with qualitative analysis of the underlying accounting choice deliberations would therefore be an avenue worth exploring in earnings management research.

6.3 PRACTICAL IMPLICATIONS

Depending on the background of the practitioner reading this thesis, he or she will probably identify different practical implications. The researcher, also being a practitioner, asked other practitioners to read the findings and provide feedback on the practical implications for them. The topics resulting from their feedback are included in this section.

First, the findings underline the importance of continuous education of controllers relating to financial accounting standards in general, but also relating to accounting instructions and policy choices within the organization. By discussing practical examples, controllers and finance staff become aware of differences in the interpretation of the rules and the perceived boundaries within which choices are considered to be allowed. Moreover, if organizations aim for consistency in financial reporting, they should not only address the education of theoretical knowledge, but also address the accounting choice behavior of controllers. The signaled difference in behavior at month-end and at year-end, combined with the identified differences in controller style and differences in perceptions of materiality, can all lead to inconsistent reporting behavior within an organization. Awareness of these differences and triggering discussions about this within the organization enables management to communicate expectations relating to the accounting choice behavior of controllers.

Second, it is important to be aware of the dominant logics within the organization and their influence on the accounting choices of controllers as well as their influence on the transparency of the accounting choice decisions. The business oriented approach and a professional logic in this empirical setting results in the availability of local BU information for the BU controllers which can be used when making their accounting choices. Also, BU controllers use their professional judgment when dealing with the dilemmas and BU related issues without having to use the resources of corporate finance staff. This way of working, however, competes with the 'corporate staff logic', expecting transparency in the decision-making process and the communication of the accounting choices available within the BU. This may lead to a less critical attitude of BU controllers due to their involvement in the BU decision-making processes. Awareness of these influences and making a conscious trade-off between the different drives that the above-mentioned competing logics trigger, enhances a mutual understanding between BU controllers and corporate finance staff.

Third, the empirical findings revealed that the auditor was involved in accounting choices discussed at a corporate level, but was hardly involved in BU controller accounting choices at a local level. BU controllers have local knowledge that corporate finance and the auditor do not have. A focus on continuous education of BU Controllers relating to awareness of events and situations in this local context that trigger accounting choices is therefore important. Due to information asymmetry, neither corporate finance nor the auditor can identify these type of choices.

Finally, the importance of functioning of operational systems for the quality of the financial information will come as no surprise to practitioners. Paying attention to the alignment and integration of management information systems and the financial information resulting in a consistent financial language and increasing controller's effectiveness in line with the suggestion made by Weißenberger et al. (2011) is probably also part of the control strategy of the majority of practitioners. However, the BU controller behavioral aspect relating to operating systems and processes that do not function optimally, and the differences in behavior of BU controllers that emerged from the findings, is something that is not regularly discussed in practice. Awareness of these differences in attitudes and understanding the causes of these differences can lead to another approach when attempting to change or improve the quality of operating systems and procedures.

The last section of this chapter outlines the limitations of this research project and finishes with the concluding remarks.

6.4 LIMITATIONS OF RESEARCH AND CONCLUDING REMARKS

This research studied the accounting choice process using an economic and institutional perspective in the context of the research domain: the BU controllers within one organization. The findings of this study are therefore only applicable within the context of the research domain. A number of characteristics that are probably domain specific are the following. The role of the controllers in this study was strongly business oriented. Moreover, the organization, was not listed on the stock exchange, but had specific characteristics relating to ownership, as outlined in Section 5.1.1. Also the organization does not have an incentive (bonus) driven culture. In addition to these characteristics, there are probably far more other domain-specific characteristics that influenced the outcome of this study.

Another limitation relates to the accounting choices discussed. Given the finding that controllers make accounting choices from habit, it is likely that not all accounting choices were discussed. Although a systematic approach was taken by the researcher to review the BUs' financial statements in order to identify the accounting choices made by the BU controller, a non-financial researcher with an inquisitive mind may identify more accounting choices. Some accounting choices may seem so self-evident to the controller and the researcher, that they did not even consider discussing these choices.

As outlined in the research methodology, the researchers audit/control background has influenced the data collection and the findings. In the methodology chapter it is explained how the awareness of this 'perspectival subjectivity' is a strength rather than a threat in presenting reliable findings. Furthermore, Chapter 4 outlines the 'measures of justification' used to justify the research results. The journey of discovery reflects the process of critical reflection. Moreover, it was a conscious decision to support the findings with quotes in order to take the reader along in the thought processes of the interviewees and researcher. All these measures have resulted in a well-structured interpretive research process that has led to the research findings presented here.

In the previous chapters and sections, the reader is given insights into the complexity of accounting choices and the dilemmas and choices the BU controllers face in their decision

process. It reveals the deliberations of BU controllers when presenting their perceived 'true and fair view' of the financial situation of the BU in the financial statements. This study contributes to accounting theory by providing a new approach to analyzing accounting choices, resulting in an explanatory analytical framework. This framework can be used and further developed when analyzing accounting choice behavior in other contextual settings. Moreover, it has revealed the important role that logics and rule based behavior play in the accounting choice process. For practitioners, it is therefore important to be aware of the logics within the organization, including competing logics, and to understand their influence on accounting choice behavior. The findings have provided thoughts and suggestions that should trigger further research projects that would be valuable for both academics and practitioners. The final concluding remark for this thesis, which the researcher sees as a challenge to take up for further research is the following:

The true and fair view of the financial statements of an entity is an individual perception.

Understanding the underlying deliberations and identifying differences in perceptions enriches financial accounting research, where the 'true and fair view' is assumed to be an unambiguous, generally agreed upon concept.

SUMMARY

An organization's financial statements are intended to provide a 'true and fair' view of its financial position at year-end and its financial performance over the year. This is what auditors state in their Auditor's Report, referring to the General Accepted Accounting Principles (GAAP) used as a basis for preparing financial statements. The information presented in these statements is, however, partly based on estimates and judgments relating to issues such as provisions for obsolete inventory, the likelihood and amount of settlement of claims and disputes, etc. Many controllers are regularly confronted with situations where these estimates and judgments are unavoidable. How do they determine which amount represents 'a true and fair view' for the user of the financial statements?

The objective of this study is *to obtain insights into the accounting choices of controllers by studying which accounting choices are available to controllers, the accounting choice process which leads to the accounting choices of the controllers, and the factors affecting these choices.*

The following research questions were formulated:

1. What accounting choices are available to controllers?
2. How are accounting choices made by the controller?
3. What factors affect the accounting choices of controllers?

Little research has been conducted on this particular subject, but there are ample studies on 'earnings management' (EM), a related area. EM studies accounting choices or other actions incurred in order to influence the outcome of earnings with a specific intention. This research investigates accounting choices in general, which is broader than EM. Moreover, EM research generally focuses on identifying determinants affecting EM using either archival analysis or experiments as research methods. The accounting choice process of controllers, i.e., *how controllers make their choices*, remains 'a black box'. In this research, the researchers aim is to 'open the black box'. The unique characteristic of this study is that it analyzes the actual accounting choices made by BU controllers instead of accounting choice behavior in experimental settings.

This summary starts with an explanation of the research design. This is followed by the findings, which provide an answer to the three research questions, and concludes with the recommendations.

Research design

This research has an exploratory nature and uses a qualitative and interpretive approach. The domain of analysis consists of Business Unit (BU) controllers from one organization. As preparation of the interviews, the data collected and analyzed consisted of the financial statements and management reports of the Business Units, the Letter of Representations signed by the BU controller and the BU manager, and a 'prequestionnaire'. In total, 18 BU controllers and 3 corporate staff employees were interviewed. The empirical data consists of 98 accounting choices that are discussed. Two group discussions were organized after the first data analysis: a group discussion with BU controllers, and a group discussion with corporate staff. The outcome of the group discussions was used for further analysis and refinement of the findings. The 'initial research route' was primarily based on theory used in EM research and was based on an economic perspective. This theory, however, did not not fully explain the empirical findings. Following a different route, adding the perspective of institutional logics, resulted in an analysis which did fully explain the findings.

Findings

The findings reveal that the accounting choice process is not a straightforward sequential process with different phases, but rather a 'chaotic' process with the BU deliberations playing an important role. The findings answer the three research questions in the specific empirical setting.

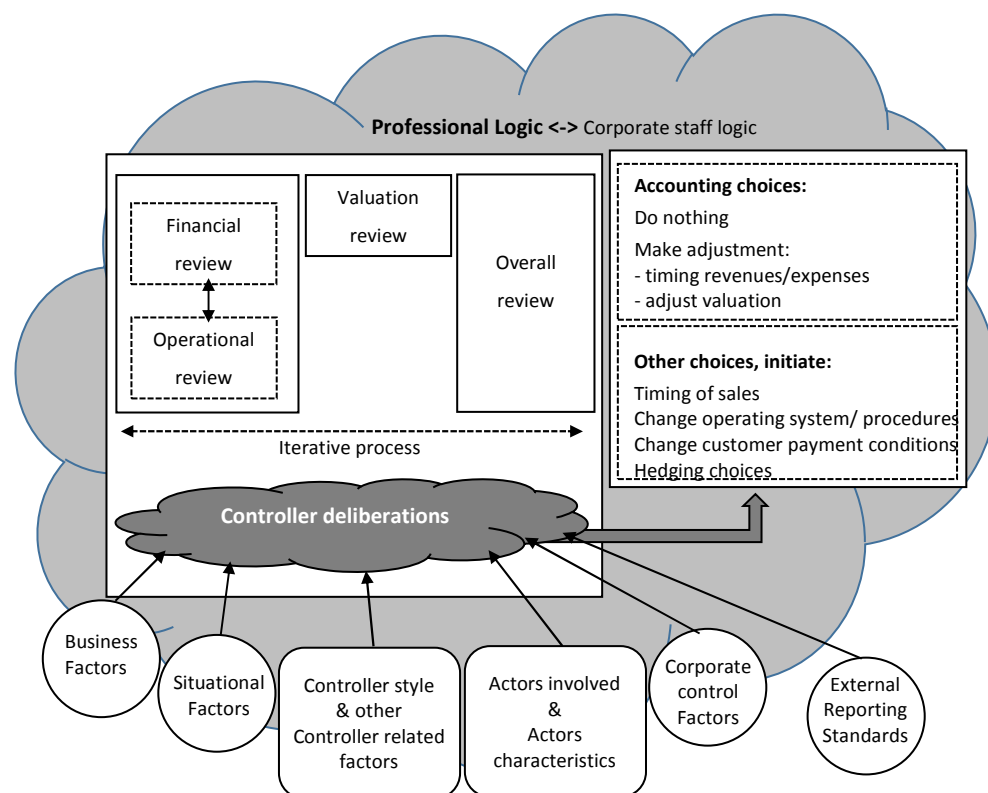
Controllers are confronted with a *broad range of available choices*. The accounting choices that were identified fell into two broad categories: 'do nothing' or 'adjustment'. The 'do nothing' choice is not necessarily a passive attitude of the controller, but can also be a deliberate choice. Moreover, it was noted that BU controllers not only identify accounting choices, but also other choices that affect the financial outcome. These choices involved 'transaction choices' such as the timing of purchases/sales and hedging transactions as well as the change of operating systems and/or processes, and the change of customer payment conditions.

An *accounting choice process* emerged from the findings, with four categories of activities identified: operational review, financial review, valuation review, and overall review. Although there is a logical flow, this process is not sequential but highly iterative. The controller deliberations play an important role in the accounting choice process. These deliberations follow different patterns. In some situations, a routine process was followed based on

corporate instructions or a systematic approach was based on experience within the BU. In other situations, the approach was 'case specific'. The research also revealed that controllers' perceptions relating to the numbers to be presented – the true and fair view - can vary considerably. Furthermore, it was found that BU controllers also make habitual decisions, therefore, they do not always realize which accounting choices are available.

There was no relation between individual *factors of influence* and the accounting choices incurred. The mix of corporate- and BU specific factors as well as the situational factors identified were different for each BU Controller. It was this unique setting that influenced the accounting choices, rather than one specific factor. The individual BU controller-related factors play an important role. Two controller styles emerged from the analysis: the financial accounting style and the management control style. These different controller styles result in different accounting choices. The 'professional logic' - with a strong decentralized business unit orientation - played an important role in the accounting choice behavior of the BU controllers. A 'corporate staff' logic was identified, which partly competed with this professional logic however, the professional logic was dominant.

The findings are summarized in the overall analytical framework of analysis below.



Limitations of research

This research studied the accounting choice process using an economic and institutional perspective in the context of BU controllers in one organization. The research results are therefore applicable to this specific context.

Recommendations

The main contribution of this study to accounting research is a new approach in analyzing accounting choices, using an interpretive methodology. Moreover, the overall framework of analysis provides insights into the complexity of the accounting choice process, the different types of choices that BU controllers are (perceived) to face during this process, and their deliberations when making these choices. Understanding controller deliberations and their perceptions relating to 'a true and fair view' enriches financial accounting research. Further interpretive research relating to accounting choice behavior using either an institutional perspective or other theoretical perspectives can contribute to this field of research. Studying accounting choices in a different contextual setting using the analytical framework of this research, would be an interesting next step.

The findings also revealed factors influencing accounting choices that were not identified in the literature review, based on existing research. An important factor that emerged from the empirical material was the influence of the operational systems and management information (systems) on accounting choices. Research combining the research areas of Financial Accounting and Accounting Information Systems and/or Management Accounting will enable further exploration of this finding.

There are a number of practical implications. The findings underline the importance of continuous education of controllers relating to financial accounting standards in general, but also relating to accounting instructions and policy choices within the organization. Moreover, it is important to be aware of controllers' accounting choice behavior in order to ensure consistency in financial reporting within an organization. Different styles of controllers result in different accounting choices. The dominant logics and possibly competing logics within the organization also influence accounting choice behavior. Awareness of these logics within the organization is therefore an important element for consideration by top management and corporate staff.

SAMENVATTING (DUTCH SUMMARY)

De jaarrekening moet een getrouw beeld geven van de grootte en de samenstelling van het vermogen en van het resultaat van een organisatie. Dit is wat de accountants vermelden in de accountantsverklaring bij de jaarrekening, daarbij verwijzend naar de verslaggevingsrichtlijnen. Deze financiële rapportage is echter deels gebaseerd op schattingen met betrekking tot de waardering van posten zoals debiteuren en voorraden en ook op aannames met betrekking tot het zich voordoen van specifieke gebeurtenissen, zoals claims en disputen. Controllers worden regelmatig geconfronteerd met de noodzaak om invulling te geven aan deze schattingen en aannames. Hoe stellen zij vast welk bedrag een 'getrouw beeld' weergeeft voor de gebruiker van de financiële rapportage? De doelstelling van dit onderzoek is *het verkrijgen van inzicht in de accounting keuzes van controllers door middel van het onderzoeken van de beschikbare accounting keuzes voor controllers, het proces dat leidt tot de accounting keuzes van de controllers en de factoren die invloed hebben op deze keuzes*. De volgende onderzoeksvragen zijn daartoe geformuleerd:

1. Welke accounting keuzes zijn beschikbaar voor controllers?
2. Hoe maken controllers accounting keuzes?
3. Welke factoren beïnvloeden de accounting keuzes van controllers?

Er is weinig onderzoek gedaan naar dit specifieke onderwerp. Wel is er veel onderzoek gedaan naar 'earnings management' (EM). Er is eigenlijk geen goede vertaling van dit begrip in het Nederlands: 'resultaat sturing' is waarschijnlijk de beste benadering van een vertaling. Dit onderzoeksgebied heeft ook betrekking op accounting keuzes. Maar dit zijn dan wel specifieke keuzes, namelijk keuzes met de intentie om de uitkomst te beïnvloeden om een bepaald doel te bereiken, zoals het behalen van een winstvoorspelling die afgegeven is aan analisten. Dit onderzoek richt zich echter op *accounting keuzes in het algemeen* en is dus breder dan earnings management. Bovendien ligt de nadruk bij EM research op het identificeren van factoren die invloed hebben op earnings management waarbij gebruik gemaakt wordt van analyse van (trends in) gepubliceerde jaarcijfers en experimenten. Het accounting keuze proces van controllers is daarbij nog een zogenaamd 'black box'. Dit onderzoek streeft ernaar om deze 'black box' te openen. Het onderscheidende kenmerk van dit onderzoek is de analyse van

gedrag met betrekking tot accounting keuzes zoals zich dat in de praktijk voordoet in plaats van accounting keuze gedrag in een experimentele setting.

In deze samenvatting wordt eerst de onderzoeksopzet toegelicht. Vervolgens wordt ingegaan op de bevindingen, waarbij antwoord gegeven wordt op de drie onderzoeksvragen. De samenvatting eindigt met de aanbevelingen die voortkomen uit dit onderzoek.

Onderzoeksopzet

Het onderzoek is exploratief, waarbij een kwalitatieve en interpretatieve onderzoeksmethode gehanteerd wordt. De onderzoekspopulatie bestaat uit Business Unit (BU) controllers die allen bij dezelfde organisatie werken. De data die verzameld en geanalyseerd is ter voorbereiding van de interviews van de BU controllers bestaat uit de financiële- en management rapportages van de Business Units, de Letters of Representations getekend door de BU controller en de BU manager en een 'prequestionnaire'. Naast interviews met 18 BU controllers, zijn 3 medewerkers van corporate staf geïnterviewd. Het empirisch materiaal bevat 98 accounting keuzes die besproken zijn. Na de eerste data analyse hebben twee groepssessies plaatsgevonden; een groepssessie met BU controllers en een groepssessie met corporate staf. De uitkomsten van deze sessies zijn verwerkt in de verdere data analyse. De oorspronkelijke 'onderzoeksrouten' was voornamelijk gebaseerd op de theorie gebruikt in EM research, uitgaande van een economisch perspectief. Hiermee konden echter de empirische bevindingen niet volledig verklaard worden. Door een andere weg in te slaan en gebruik te maken van het perspectief van 'institutional logics'²³ konden de empirische bevindingen wel volledig verklaard worden.

Bevindingen

Het accounting keuze proces is niet een eenduidig en lineair proces met verschillende fasen. Het is een complex proces waarbij de overwegingen van de controllers een belangrijke rol

²³ Institutional logics heeft betrekking op de gehanteerde 'logica' van een persoon of binnen een organisatie. De definitie van institutional logics is: "sociaal geconstrueerde, historische patronen van gebruiken in de praktijk, veronderstellingen, waarden, overtuigingen en regels waarmee individuen hun bestaan vorm geven en betekenis geven aan hun sociale werkelijkheid." (in het engels: "the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality") (Thornton & Ocasio, 2008, p. 101) .

spelen. De empirische bevindingen beantwoorden de drie onderzoeksvragen in de specifieke empirische setting.

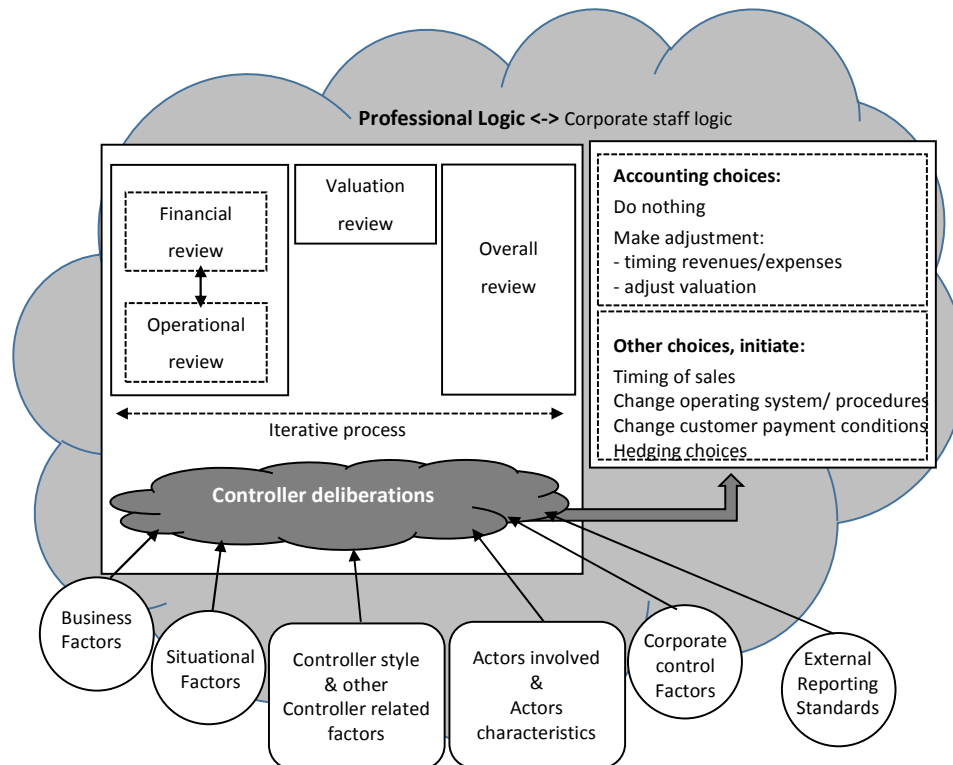
Controllers worden geconfronteerd met *veel beschikbare accounting keuzes*. De accounting keuzes zijn in twee hoofdcategorieën in te delen: ‘niets doen’ en ‘adjustment’ (een boeking maken). Als een controller ‘niets doet’ is dit niet noodzakelijkerwijze een passieve houding. Dit ‘niets doen’ kan namelijk ook het resultaat zijn van een weloverwogen beslissing om de cijfers niet aan te passen. Behalve accounting keuzes maken controllers ook andere keuzes die invloed hebben op het resultaat. Deze keuzes betreffen niet alleen de zogenaamde ‘transactiekeuzes’ zoals de timing van inkopen/verkoop en hedging transacties maar betreffen ook keuzes met betrekking tot het wel of niet aanpassen van operationele systemen/processen en het initiëren van veranderingen in betalingscondities.

Het empirisch materiaal verschaft inzicht in *hoe controllers accounting keuzes maken*. Uit de bevindingen kwam een accounting keuze proces naar voren dat bestaat uit vier activiteiten: operationele beoordeling, financiële beoordeling, beoordeling waardering, en totaal beoordeling. Hoewel er een logische volgorde in deze activiteiten te onderkennen is verloopt het proces niet lineair; het is een sterk iteratief proces. De overwegingen van de controller spelen een belangrijke rol in dit proces. Hierbij zijn verschillende patronen te onderkennen: ‘routine matig’ of ‘case specific’. Bij een routinematig proces worden de corporate instructies gevolgd of een andere systematische benadering die gebaseerd is op eerdere ervaringen in de Business Unit. Van een case specific benadering is sprake als een routinematige benadering niet mogelijk is of als nieuwe inzichten leiden tot aanpassing hiervan. Uit het onderzoek bleek tevens dat de percepties van BU controllers met betrekking welk bedrag ‘het getrouwe beeld’ weergeeft aanzienlijk kunnen verschillen. Ook kwam naar voren dat de keuze van controllers soms ook gemaakt wordt ‘uit gewoonte’. Hierdoor realiseren zij zich niet altijd welke keuzes beschikbaar zijn.

Het was niet mogelijk om afzonderlijke *factoren van invloed* te relateren aan de gemaakte accounting keuzes. De combinatie van organisatie- en business unit specifieke factoren met daarnaast nog situationele factoren was voor iedere BU controller verschillend. Het was deze unieke setting die de accounting keuzes beïnvloedde en niet de afzonderlijke factoren. De individueel controller-gerelateerde factoren spelen een belangrijke rol. Uit de empirische bevindingen kwamen twee ‘controller-stijlen’ naar voren: de financial accounting stijl en de

management control stijl. Deze verschillende stijlen leiden tot verschillende accounting keuzes. Ook werd geconstateerd dat de heersende 'professionele logica' – met een sterke decentrale business oriëntatie - een belangrijke rol speelde bij de accounting keuzes. Daarnaast kwam een 'corporate staf logica' naar voren, die deels op gespannen voet staat met de professionele logica. De professionele logica was dominant binnen de organisatie.

De bevindingen zijn samengevat in het analytisch model hieronder:



Beperkingen van het onderzoek

In dit onderzoek zijn de accounting keuzes van BU controllers van één organisatie geanalyseerd vanuit een economisch en institutioneel perspectief. De onderzoeksresultaten zijn derhalve van toepassing binnen deze specifieke context.

Aanbevelingen

Dit onderzoek laat een nieuwe benadering zien van analyse van accounting keuzes, gebaseerd op een interpretatieve methodologie. Het onderzoek heeft geresulteerd in een analytisch model waarmee inzicht wordt gegeven in de complexiteit van het accounting keuze proces, de keuzes waarmee BU controllers geconfronteerd worden in hun besluitvormingsproces en de overwegingen van BU controllers met betrekking tot deze keuzes. Het verkrijgen van inzicht in

de overwegingen van controllers bij het maken van accounting keuzes en hun perceptie van het 'getrouwe beeld' van het resultaat verrijkt financial accounting research. Nader interpretatief onderzoek naar accounting keuzes vanuit het perspectief van de institutionele theorie of andere theoretische perspectieven kan hieraan bijdragen. Het bestuderen van accounting keuzes in een andere context, gebruik makend van het analytisch schema dat naar voren gekomen is uit dit onderzoek, zou een interessante volgende stap zijn.

Uit de bevindingen kwamen ook factoren van invloed naar voren die niet uit de literatuurstudie bleken. Eén van de factoren die duidelijk naar voren kwam is de invloed van de operationele systemen en de management informatie (systemen) op de accounting keuzes. Nader onderzoek met betrekking tot dit onderwerp zou aangevlogen kunnen worden door het combineren van de onderzoeksgebieden financial accounting en accounting information systems en/of management accounting.

Er zijn ook een aantal praktische aanbevelingen. De empirische bevindingen bevestigen het belang van permanente educatie van controllers met betrekking tot externe verslaggevingsrichtlijnen maar ook met betrekking tot corporate accounting procedures en instructies. Om consistentie in de verslaggeving binnen de organisatie te bewerkstelligen is het bovendien van belang om zich bewust te zijn van het accounting keuze gedrag van controllers. Verschillende controller-stijlen leiden tot verschillende accounting keuzes. De dominante logica's en wellicht concurrerende logica's hebben ook invloed op het accounting keuze gedrag. Het is daarom belangrijk dat top management en corporate finance zich bewust is van de heersende logica's in de organisatie.

APPENDIX 1 PREQUESTIONNAIRE

Background and work-experience

1. What is your education?
2. How many years have you worked for this organization?
3. What was your previous work experience?
 - a. Type of business
 - b. Type of function
 - c. Have you worked for an audit firm? If so, for how many years?
4. How would you rate your reporting knowledge (on a scale from 0-10)?
5. How would you rate your business knowledge relating to the business that you are supporting just now (on a scale of 0-10)?
6. What is your age (optional ;-)

Involvement at decision-making relating to the financial statements

7. Who are the most important persons involved when you have to make decisions relating to financial statements and reporting?

Bonus related targets and other important targets

8. Are there bonus related targets within your Business Unit?
 - a. If so, what are these targets?
 - b. For whom are the targets applicable?
9. Are there other targets important for your Business Unit (for example relating to external reporting/contracts?)
 - a. If so, what are these targets?
 - b. What is the purpose of these targets?

Use of estimates/choices for your financial statements

10. For what reporting items are you using estimates or making accounting choices? (For example provisions, accruals, capitalization, hedging, etc.)?

APPENDIX 2 INTERVIEW GUIDE

Short introduction – purpose of research (5 minutes)

Discuss information gathered before the interview (30-45 minutes)

1. Background information of controller (based on prequestionnaire – 5 minutes)
Maybe controller wants to give additional explanation
2. Accounting choices process – the ‘actors’ (5-10 minutes)
Can you tell me something about the persons that influence your financial reporting choices?
(for each actor) Can you tell how you work together with him/her?
3. Discuss the identified accounting choices (15-30 minutes)
 - a. Can you tell something about the choices you had to make for the items you mentioned?
 - b. Discuss items not identified in prequestionnaire (e.g., accruals, provisions, depreciation periods etc.)

Accounting choice process – opinion relating to factors influencing accounting choices (10-25 minutes)

4. What professional dilemmas did you encounter in making the estimates and review of reporting items?
5. How do you think that your personality influences your accounting choices?
6. Other factors:
 - a. What is in your opinion the influence of the compensation scheme?
 - b. What is the impact on your choice of the fact that the organization also is an association?
 - c. What is, in your opinion the attitude of top management relating to accounting choices?
 - d. Are there other factors, in your opinion, that influence accounting choices?

APPENDIX 3 POSTQUESTIONNAIRE CONSIDERATIONS AND OUTCOME

Extant research includes studies that relate personal characteristics to earnings management decisions and perception (Elias, 2002; Greenfield et al., 2008), to reporting behavior (Hartmann & Maas, 2010; Jia, 2008) and to the role of the business controller (De Loo et al., 2011; Ten Rouwelaar & Bots, 2008). Since this study is of an exploratory nature, there is no in-depth focus on psychology-literature. It is interesting, however, to explore if and how the findings of previous studies can be used in explaining accounting choice behavior of controllers. Therefore a questionnaire was developed based on the questionnaires used in the aforementioned studies. The purpose of this questionnaire was to obtain additional background information which could help to explain the motivational triggers of controllers in making their choices and could be used for further discussion in group sessions.

The questions were translated in Dutch since all participants were Dutch. Due to the difficulty of translation of some questions, not all questions were used. A 5 point Likert scale was used for all questions. The summary of the studies that were used as a basis for the questionnaire and the number of questions used from these studies is provided below:

| Studies referred to in literature review | Construct used | Instrument | Number of questions | Number of questions used in Questionnaire |
|--|--------------------------|---|---------------------|---|
| Greenfield, A., C. Norman, et al. (2008). "The Effect of Ethical Orientation and Professional Commitment on Earnings Management Behavior." | Professional Commitment | Adapted 15-item measure of Arana et al 1981 | 15 | 9 |
| Elias, R. Z. (2002). "Determinants of Earnings Management Ethics Among Accountants." (construct ethical orientation also used by Greenfield) | Ethical Orientation | Ethical Position Questionnaire of Forsythe 1980 | 20 | 12 |
| Hartmann, F. G. H. and V. S. Maas (2010). "Why Business Unit Controllers Create Budget Slack: Involvement in Management, Social Pressure, and Machiavellianism." | Machiavellianism | Mach IV scale of Cristie and Geis 1980 | 20 | 12 |
| De Loo, I., B. Verstegen, et al. (2011). "Understanding the roles of management accountants." | Personal characteristics | Characteristics based on literature review | 6 | 6 |
| Total number of questions | | | 61 | 39 |

The questionnaire was sent to the interviewees after the interview. In total 16 out of the 18 BU controllers completed the questionnaire. It should be stressed that this is not a statistical analysis but merely data collection to provide possible additional insight in controller behavior. The 'score' for professional commitment, ethical orientation and machiavalism was calculated

by adding all the scores per category (taking into account the 'direction' of the question) and dividing the outcome by the number of questions per category. The outcome is listed below:

| BUC# | Professional commitment | Ethical orientation | Machiavialism | Personal triggers | | | | | |
|---------|-------------------------|---------------------|---------------|-----------------------|------------------|-------------------|---------------------|---|---------------------|
| | | | | Generalist-Specialist | Executor-Thinker | Creative-Rational | Diplomatic-Coercive | Individually orientated-Focused on teamwork | Introvert-Extravert |
| BUC01 | 2.9 | 3.3 | 2.4 | 3 | 2 | 4 | 2 | 2 | 2 |
| BUC02 | 3.8 | 3.3 | 1.8 | 2 | 2 | 3 | 2 | 3 | 2 |
| BUC03 | 3.8 | 3.2 | 2.4 | 3 | 3 | 2 | 1 | 4 | 3 |
| BUC04 | 4.2 | 3.3 | 2.8 | 3 | 2 | 4 | 3 | 4 | 3 |
| BUC05 | 3.7 | 3.0 | 2.3 | 3 | 2 | 3 | 2 | 3 | 2 |
| BUC06 | 3.7 | 3.3 | 2.8 | 1 | 2 | 3 | 2 | 3 | 2 |
| BUC07 | 3.6 | 3.8 | 2.1 | 4 | 3 | 4 | 2 | 3 | 1 |
| BUC08 | 2.6 | 3.5 | 2.2 | 2 | 3 | 3 | 3 | 3 | 3 |
| BUC09 | 3.2 | 3.8 | 2.1 | 4 | 2 | 2 | 2 | 3 | 4 |
| BUC10 | 2.8 | 3.6 | 3.4 | 1 | 2 | 1 | 1 | 3 | 2 |
| BUC12 | 3.3 | 3.1 | 1.7 | 3 | 2 | 4 | 1 | 4 | 3 |
| BUC13 | 4.3 | 3.4 | 1.9 | 2 | 3 | 4 | 3 | 3 | 2 |
| BUC14 | 3.0 | 2.7 | 2.9 | 3 | 3 | 3 | 4 | 3 | 4 |
| BUC15 | 4.3 | 4.3 | 2.3 | 1 | 3 | 4 | 3 | 4 | 3 |
| BUC16 | 3.3 | 3.8 | 2.3 | 3 | 3 | 3 | 3 | 3 | 3 |
| BUC17 | 3.4 | 3.9 | 2.0 | 3 | 2 | 2 | 2 | 4 | 4 |
| average | 3.5 | 3.4 | 2.3 | 2.6 | 2.4 | 3.1 | 2.3 | 3.3 | 2.7 |

When analyzing the accounting choices it was, however, not possible to identify a pattern in the above factors and the accounting choices of the BU controllers. Therefore, the outcome was not used as a basis for further discussion in the group sessions.

The English and Dutch version of the questions are provided below.

Appendix 3 - Questionnaire (English version)

| Professional Commitment Questions (based on Greenfield et al. 2008) | | | | | |
|---|-------------------|----|-----|----------------|-----------------|
| Are you a member of a professional body? More options are available | RA | RC | MCA | FC | other: |
| To what professional body do you feel most closely associated in practicing your current function? | | | | | |
| Please answer the following questions for the profession(al body) you indicated in the previous answer. | | | | | |
| You will find a series of statements listed below. Answer to what extent you agree or disagree with these statements based on your own experience and opinions. | strongly disagree | | | strongly agree | |
| I am proud of my profession | 1 | 2 | 3 | 4 | 5 |
| I find that my values and the profession's values are very similar | 1 | 2 | 3 | 4 | 5 |
| The type of organization I work in is more important for me than the profession I work in | 1 | 2 | 3 | 4 | 5 |
| Being a member of this profession really inspires the very best in me in the way of job performance | 1 | 2 | 3 | 4 | 5 |
| Deciding to be a member of this profession was a definite mistake on my part | 1 | 2 | 3 | 4 | 5 |
| It would take very little change in my present circumstances to cause me to work in areas that are not associated with this profession | 1 | 2 | 3 | 4 | 5 |
| I really care about the faith of this profession | 1 | 2 | 3 | 4 | 5 |
| Often, I find it difficult to agree with this profession's policies on important matters relating to its members. | 1 | 2 | 3 | 4 | 5 |
| There's not too much to be gained by sticking with this profession indefinitely | 1 | 2 | 3 | 4 | 5 |
| Ethical Orientation (based on Greenfield et al. 2008) | | | | | |
| Please indicate the extent to which you agree or disagree with the statements below. | strongly disagree | | | strongly agree | |
| A person should make certain that their actions never intentionally harm another even to a small degree. | 1 | 2 | 3 | 4 | 5 |
| The existence of potential harm to others is always wrong, irrespective of the benefits to be gained | 1 | 2 | 3 | 4 | 5 |
| One should never psychologically or physically harm another person | 1 | 2 | 3 | 4 | 5 |
| If an action could harm an innocent other, then it should not be done | 1 | 2 | 3 | 4 | 5 |
| Deciding whether or not to perform an act by balancing the positive consequences of the act against the negative consequences is immoral | 1 | 2 | 3 | 4 | 5 |
| The dignity and welfare of people should be the most important concern in any society | 1 | 2 | 3 | 4 | 5 |
| There are no ethical principles that are so important that they should be part of any code of ethics | 1 | 2 | 3 | 4 | 5 |
| What is ethical varies from one situation to another | 1 | 2 | 3 | 4 | 5 |
| Moral standards should be seen as being individualistic; what one person considers to be moral may be judged to be immoral by other persons | 1 | 2 | 3 | 4 | 5 |
| Moral standards are simply <u>personal</u> rules which can indicate how a person should behave and are not to be applied in making judgements of others | 1 | 2 | 3 | 4 | 5 |
| Ethical considerations in interpersonal relations are so complex that individuals should be allowed to formulate their own individual codes. | 1 | 2 | 3 | 4 | 5 |
| Whether a lie is judged to be moral or immoral depends upon the circumstances surrounding the action | 1 | 2 | 3 | 4 | 5 |

Appendix 3 - Questionnaire (English version) cont.

| Machiavelli (based on Hartmann et al. 2010) | | | | | |
|--|--------------------------|---|---|-----------------------|---------------------|
| <i>Please indicate the extent to which you agree or disagree with the statements below.</i> | strongly disagree | | | strongly agree | |
| Never tell anyone the real reason you did something unless it is useful to do so | 1 | 2 | 3 | 4 | 5 |
| The best way to handle people is to tell them what they want to hear | 1 | 2 | 3 | 4 | 5 |
| One should only take action when sure it is morally right | 1 | 2 | 3 | 4 | 5 |
| Most people are good and kind | 1 | 2 | 3 | 4 | 5 |
| Is is the safest to assume that all people have a vicious streak | 1 | 2 | 3 | 4 | 5 |
| Honesty is the best policy in all cases | 1 | 2 | 3 | 4 | 5 |
| There is no excuse for lying to someone else | 1 | 2 | 3 | 4 | 5 |
| All in all, it is better to be humble and honest than to be important and dishonest | 1 | 2 | 3 | 4 | 5 |
| Most people who get ahead in the world lead clean, moral lives | 1 | 2 | 3 | 4 | 5 |
| Anyone who completely trusts anyone else is asking for trouble | 1 | 2 | 3 | 4 | 5 |
| The biggest difference between most criminals and other people is that the criminals are stupid enough to get caught | 1 | 2 | 3 | 4 | 5 |
| It is wise to flatter important people | 1 | 2 | 3 | 4 | 5 |
| Personal triggers (based on De Loo and Verstegen 2011) | | | | | |
| <i>The next question contains several personal characteristics that are grouped in pairs. Can you indicate to what extent these characteristics are representative of yourself in your work as a business controller? Please note that there is no 'right' or 'wrong' answer</i> | | | | | |
| Generalist | 1 | 2 | 3 | 4 | Business Specialist |
| Executor | 1 | 2 | 3 | 4 | Thinker |
| Creative | 1 | 2 | 3 | 4 | Rational |
| Diplomatic | 1 | 2 | 3 | 4 | Coercive |
| Individually oriented | 1 | 2 | 3 | 4 | Focused on teamwork |
| Introvert | 1 | 2 | 3 | 4 | Extravert |

Appendix 3 - Questionnaire (Dutch version)

| Professional Commitment Questions (based on Greenfield et al. 2008) | | | | | |
|--|---------------|----|-------------|----|------------------|
| Van welke beroepsgroep bent u lid? Meerdere antwoorden zijn mogelijk | RA | RC | MCA | FC | anders: |
| Met welke beroepsgroep voelt u zich het meest verwant in uw dagelijkse praktijk als business controller? | | | | | |
| Geef voor de beroepsgroep waaraan u zich het meest verwant voelt in de dagelijkse praktijk aan in hoeverre u het eens/oneens bent met de onderstaande stellingen. | geheel oneens | | geheel eens | | |
| Ik ben trots op mijn beroep | 1 | 2 | 3 | 4 | 5 |
| De normen en waarden van mijn beroepsgroep komen overeen met mijn eigen normen en waarden | 1 | 2 | 3 | 4 | 5 |
| Ik vind het type organisatie waar ik voor werk belangrijker dan de aard van de functie die ik uitoefen (bijv. financieel of niet financieel). | 1 | 2 | 3 | 4 | 5 |
| Mijn beroepsgroep inspireert me optimaal om mijn functie goed uit te oefenen | 1 | 2 | 3 | 4 | 5 |
| Lid worden van deze beroepsgroep was een verkeerde beslissing | 1 | 2 | 3 | 4 | 5 |
| Ik heb geen moeite met het overstappen naar een andere niet-financieel georiënteerde functie | 1 | 2 | 3 | 4 | 5 |
| Ik voel me erg betrokken bij de geloofwaardigheid van mijn beroepsgroep | 1 | 2 | 3 | 4 | 5 |
| Voor belangrijke onderwerpen vind ik het vaak moeilijk om het eens te zijn met de regels van mijn beroepsgroep. | 1 | 2 | 3 | 4 | 5 |
| Het is niet noodzakelijk om mijn hele carrière in een financiële functie werkzaam te zijn | 1 | 2 | 3 | 4 | 5 |
| | | | | | |
| | | | | | |
| Ethical Orientation (based on Greenfield et al. 2008) | | | | | |
| Geef in de onderstaande serie van stellingen aan in hoeverre u het er mee eens/oneens bent. | geheel oneens | | geheel eens | | |
| Je moet jezelf ervan verzekeren dat je met je handelen niemand opzettelijk schaadt, zelfs niet een heel klein beetje | 1 | 2 | 3 | 4 | 5 |
| Een situatie met mogelijke schadelijke gevolgen voor een individu is altijd onaanvaardbaar, onafhankelijk van de te behalen voordelen in een dergelijke situatie. | 1 | 2 | 3 | 4 | 5 |
| Je mag nooit iemand fysiek of psychologisch schade berokkenen | 1 | 2 | 3 | 4 | 5 |
| Als een handeling een onschuldige iemand kan schaden dan moet het nagelaten worden | 1 | 2 | 3 | 4 | 5 |
| Het afwegen van positieve en negatieve gevolgen van een handeling is niet moreel | 1 | 2 | 3 | 4 | 5 |
| Het welzijn van de mens zou het belangrijkste streven moeten zijn in elke maatschappij | 1 | 2 | 3 | 4 | 5 |
| Er zijn geen etische principes die zo belangrijk zijn dat ze opgenomen zouden moeten worden in een gedragscode | 1 | 2 | 3 | 4 | 5 |
| Wat ethisch gedrag is varieert van situatie tot situatie | 1 | 2 | 3 | 4 | 5 |
| Normen en waarden zijn individueel: wat de ene persoon als ethisch gedrag beschouwd kan als onethisch gedrag beschouwd worden door anderen | 1 | 2 | 3 | 4 | 5 |
| Normen en waarden zijn gewoon <u>persoonlijke</u> regels die aangeven hoe iemand zich moet gedragen en die niet gebruikt kunnen worden om te oordelen over anderen | 1 | 2 | 3 | 4 | 5 |
| Ethische standaarden in persoonlijke relaties zijn zo complex dat individuen hun eigen persoonlijke gedragscodes moeten kunnen bepalen | 1 | 2 | 3 | 4 | 5 |
| Of liegen onethisch is hangt af van de omstandigheden | 1 | 2 | 3 | 4 | 5 |

Appendix 3 - Questionnaire (Dutch version) cont.

| Machiavelli (based on Hartmann et al. 2010) | | | | | |
|---|---------------|---|---|---|-----------------------|
| <i>Geef in de onderstaande serie van stellingen aan in hoeverre u het er mee eens/oneens bent.</i> | geheel oneens | | | | geheel eens |
| | 1 | 2 | 3 | 4 | 5 |
| Vertel iemand nooit de werkelijke reden waarom je iets deed, tenzij je er voordeel bij hebt om dit te vertellen | 1 | 2 | 3 | 4 | 5 |
| De beste manier om met mensen om te gaan is om ze te vertellen wat ze willen horen | 1 | 2 | 3 | 4 | 5 |
| Je moet alleen actie ondernemen als je zeker weet dat dit moreel verantwoord is | 1 | 2 | 3 | 4 | 5 |
| De meeste mensen zijn goed en aardig | 1 | 2 | 3 | 4 | 5 |
| Je kunt er het beste vanuit gaan dat ieder mens gemene streken heeft | 1 | 2 | 3 | 4 | 5 |
| Eerlijkheid is altijd de beste aanpak | 1 | 2 | 3 | 4 | 5 |
| Er is geen excuus om tegen iemand te liegen | 1 | 2 | 3 | 4 | 5 |
| Uiteindelijk is het beter om eenvoudig en eerlijk te zijn dan vooraanstaand en oneerlijk | 1 | 2 | 3 | 4 | 5 |
| De meeste succesvolle mensen leiden onberispelijke levens | 1 | 2 | 3 | 4 | 5 |
| Als je iedereen vertrouwt dan is dat vragen om moeilijkheden | 1 | 2 | 3 | 4 | 5 |
| Het grootste verschil tussen criminelen en andere mensen is dat criminelen zo dom waren om gesnapt te worden | 1 | 2 | 3 | 4 | 5 |
| Het is verstandig om belangrijke mensen te vleien | 1 | 2 | 3 | 4 | 5 |
| | | | | | |
| | | | | | |
| Personal triggers (based on De Loo and Verstegen 2011) | | | | | |
| <i>De volgende vraag bevat een aantal persoonlijkheidskenmerken. Kunt u aangeven in welke mate deze kenmerken zich voordoen in uw werk als business controller?</i> | | | | | |
| <i>Er is geen 'goed' of 'fout' antwoord.</i> | | | | | |
| Generalist | 1 | 2 | 3 | 4 | Business Specialist |
| Uitvoerder | 1 | 2 | 3 | 4 | Denker |
| Creatief | 1 | 2 | 3 | 4 | Rationeel |
| Diplomatiek | 1 | 2 | 3 | 4 | Dwingend |
| Individueel georiënteerd | 1 | 2 | 3 | 4 | Gefocused op teamwerk |
| Introvert | 1 | 2 | 3 | 4 | Extravert |

APPENDIX 4 FACTORS: EMPIRICAL FINDINGS AND THEORY

| Factors empirical findings | Factors theory |
|--|--|
| External and organizational | External and organizational |
| Stakeholders | Accounting standards |
| Interpretation of Accounting Standards | Other regulation |
| Insurance regulation | Ownership |
| Corporate accounting instructions | Financing structure |
| Planning and control deadlines | Earnings around zero |
| Business orientated role of controller | Board of directors |
| sometimes: Peer Controllers | Governance and Auditor |
| Business unit | Incentive compensation |
| Business activities | Role of controller within organization |
| Strategic position within organization | Business unit |
| Size of business | Capital intensity |
| Operating systems and procedures | Business growth |
| Operating interdependencies | Operating interdependencies |
| Situational: restructuring situation | Line manager characteristics |
| BU Manager's financial/operational knowledge | Controller characteristics |
| (Support of) Business Administrator | Personality |
| (Knowledge of) Operational BU employees | Technical (GAAP) knowledge |
| Controller characteristics | Ethical orientation |
| Controller style | Professional commitment |
| Risk attitude | Age |
| Critical attitude | Experience as auditor |
| Technical (GAAP) knowledge | Number of years in financial function |
| Mix of personal factors and experience | Industry knowledge |
| Decision characteristics | Gender |
| Month end / Year end | |
| Materiality | |

LIST OF FIGURES AND TABLES

Figures

| | |
|--|-----|
| Figure 1 Categories of accounting choices. Adapted from “Earnings Management: Reconciling the Views of Accounting Academics, Practitioners, and Regulators,” by P.M. Dechow and D.J. Skinner, 2000, <i>Accounting Horizons</i> , 14(2), p. 239 | 8 |
| Figure 2 Overview of research process and structure of thesis | 12 |
| Figure 3 Example of an accrual with its non-discretionary and discretionary component | 15 |
| Figure 4 Accounting choices of BU controllers – Analytical framework | 63 |
| Figure 5 Activities within the accounting choice process | 83 |
| Figure 6 The accounting choice process..... | 102 |
| Figure 7 BU controller setting | 125 |
| Figure 8 Accounting choice process of an interviewed BU controller relating to provision for bad debt | 130 |
| Figure 9 Accounting choice process of BU controller A relating to accrued expenses | 135 |
| Figure 10 Accounting choice process of BU controller B relating to the timing of various expenses | 138 |
| Figure 11 Different types of accruals in two situations..... | 159 |

Tables

| | |
|--|----|
| Table 1 Specific accounting choices studied using surveys and experiments..... | 18 |
| Table 2 Accounting choices identified in two case studies | 19 |
| Table 3 Factors influencing earnings management and reporting decisions | 31 |
| Table 4 Population studied in reviewed literature..... | 31 |
| Table 5 Factors influencing controller involvement in decision making..... | 35 |
| Table 6 Population studied in reviewed literature..... | 35 |
| Table 7 Accounting choices identified in the literature review, categorized by reporting item | 37 |
| Table 8 Factors that may influence accounting choices of controllers | 39 |
| Table 9 Population researched of studies discussed in the literature review | 40 |
| Table 10 Controller role-style and the position within the organization based on Lambert and Sponem (2012) | 44 |
| Table 11 Data collected phase 1 | 54 |
| Table 12 Data collected phase 2 | 55 |
| Table 13 Accounting choices discussed..... | 81 |
| Table 14 Summary of accounting choices | 94 |

LITERATURE

- Ahrens, T., Becker, A., Burns, J., Chapman, C. S., Granlund, M., Habersam, M., . . . Scheytt, T. (2008). The future of interpretive accounting research—A polyphonic debate. *Critical Perspectives on Accounting*, 19(6), 840-866. doi: 10.1016/j.cpa.2006.07.005
- Ball, R., & Shivakumar, L. (2008). Earnings quality at initial public offerings. *Journal of Accounting and Economics*, 45(2-3), 324-349. doi: 10.1016/j.jacceco.2007.12.001
- Bayou, M. E., Reinstein, A., & Williams, P. F. (2011). To tell the truth: A discussion of issues concerning truth and ethics in accounting. *Accounting, Organizations and Society*, 36(2), 109-124. doi: 10.1016/j.aos.2011.02.001
- Bens, D. A., & Johnston, R. (2009). Accounting Discretion: Use or Abuse? An Analysis of Restructuring Charges Surrounding Regulator Action. [Article]. *Contemporary Accounting Research*, 26(3), 673-699. doi: 10.1506/car.26.3.2
- Board, I. A. S. (2013). Post-implementation Review: IFRS 8 Operating Segments. London: IFRS Foundation.
- Bouwman, C. H. S. (2014). Managerial optimism and earnings smoothing. *Journal of Banking & Finance*, 41(0), 283-303. doi: 10.1016/j.jbankfin.2013.12.019
- Bowlin, K., Hales, J., & Kachelmeier, S. (2009). Experimental evidence of how prior experience as an auditor influences managers' strategic reporting decisions. *Review of Accounting Studies*, 14(1), 63-87. doi: 10.1007/s11142-008-9077-0
- Bowman, R. G., & Navissi, F. (2003). Earnings management and abnormal returns: Evidence from the 1970-1972 Price Control Regulations. [Article]. *Accounting & Finance*, 43(1), 1-19. doi: 10.1111/1467-629x.00080
- Burgstahler, D., & Dichev, I. (1997). Earnings management to avoid earnings decreases and losses. *Journal of Accounting and Economics*, 24(1), 99-126. doi: 10.1016/s0165-4101(97)00017-7
- Burns, J., & Baldvinsdottir, G. (2005). An Institutional Perspective of Accountants' New Roles – The Interplay of Contradictions and Praxis. [Article]. *European Accounting Review*, 14(4), 725-757. doi: 10.1080/09638180500194171

- Burns, J., & Scapens, R. W. (2000). Conceptualizing management accounting change: an institutional framework. *Management Accounting Research*, 11(1), 3-25. doi: 10.1006/mare.1999.0119
- Byrne, S., & Pierce, B. (2007). Towards a More Comprehensive Understanding of the Roles of Management Accountants. [Article]. *European Accounting Review*, 16(3), 469-498. doi: 10.1080/09638180701507114
- Chen, Q., Kelly, K., & Salterio, S. E. (2012). Do changes in audit actions and attitudes consistent with increased auditor scepticism deter aggressive earnings management? An experimental investigation. *Accounting, Organizations and Society*, 37(2), 95-115. doi: 10.1016/j.aos.2011.11.001
- Chua, W. F. (1986). Radical Developments in Accounting Thought. [Article]. *Accounting Review*, 61(4), 601.
- Chua, W. F., & Mahama, H. (2012). On theory as a 'deliverable' and its relevance in 'policy' arenas. [Article]. *Critical Perspectives on Accounting*, 23(1), 78-82. doi: 10.1016/j.cpa.2011.05.001
- de Jong, A., DeJong, D. V., Mertens, G., & Roosenboom, P. (2007). Investor relations, reputational bonding, and corporate governance: The case of Royal Ahold. *Journal of Accounting and Public Policy*, 26(3), 328-375. doi: 10.1016/j.jaccpubpol.2007.03.002
- De Loo, I., Nederlof, P., & Verstegen, B. H. J. (2006). Detecting behavioural patterns of Dutch controller graduates through interpretive interactionism principles. *Qualitative Research in Accounting & Management*, 3(1), 46-66. doi: 10.1108/11766090610659742
- De Loo, I., Verstegen, B. H. J., & Swagerman, D. (2011). Understanding the roles of management accountants. *European Business Review*, 23(3), 287-313. doi: 10.1108/09555341111130263
- Dechow, P. M., Ge, W., & Schrand, C. (2010). Understanding earnings quality: A review of the proxies, their determinants and their consequences. *Journal of Accounting and Economics*, 50(2-3), 344-401. doi: 10.1016/j.jacceco.2010.09.001

- Dechow, P. M., Hutton, A. P., Kim, J. H., & Sloan, R. G. (2012). Detecting Earnings Management: A New Approach. *Journal of Accounting Research*, 50(2), 275-334. doi: 10.1111/j.1475-679X.2012.00449.x
- Dechow, P. M., & Skinner, D. J. (2000). Earnings Management: Reconciling the Views of Accounting Academics, Practitioners, and Regulators. [Article]. *Accounting Horizons*, 14(2), 235-250.
- Elias, R. Z. (2002). Determinants of Earnings Management Ethics Among Accountants. *Journal of Business Ethics*, 40(1), 33-45. doi: 10.1023/a:1019956821253
- Ettredge, M., Fuerherm, E. E., & Li, C. (2014). Fee pressure and audit quality. *Accounting, Organizations and Society*, 39(4), 247-263. doi: 10.1016/j.aos.2014.04.002
- Ezzamel, M., & Burns, J. (2005). Professional Competition, Economic Value Added and Management Control Strategies. *Organization Studies*, 26(5), 755-777. doi: 10.1177/0170840605054598
- Ezzamel, M., Lilley, S., & Willmott, H. (1997). Accounting for Management and Managing Accounting: Reflections on Recent Changes in the UK. *Journal of Management Studies*, 34(3), 439-463. doi: 10.1111/1467-6486.00058
- Ezzamel, M., Robson, K., & Stapleton, P. (2012). The logics of budgeting: Theorization and practice variation in the educational field. *Accounting, Organizations and Society*, 37(5), 281-303. doi: 10.1016/j.aos.2012.03.005
- Fields, T. D., Lys, T. Z., & Vincent, L. (2001). Empirical research on accounting choice. *Journal of Accounting and Economics*, 31(1-3), 255-307. doi: 10.1016/s0165-4101(01)00028-3
- Givoly, D., Hayn, C. K., & Katz, S. P. (2010). Does Public Ownership of Equity Improve Earnings Quality? [Article]. *Accounting Review*, 85(1), 195-225. doi: 0.2308 / accr.2010.85.1.195
- Graham, A., Davey-Evans, S., & Toon, I. (2012). The developing role of the financial controller: evidence from the UK. *Journal of Applied Accounting Research*, 13(1), 71-88. doi: doi:10.1108/09675421211231934

- Graham, J. R., Harvey, C. R., & Rajgopal, S. (2005). The economic implications of corporate financial reporting. *Journal of Accounting and Economics*, 40(1-3), 3-73. doi: 10.1016/j.jacceco.2005.01.002
- Greenfield, A., Norman, C., & Wier, B. (2008). The Effect of Ethical Orientation and Professional Commitment on Earnings Management Behavior. *Journal of Business Ethics*, 83(3), 419-434. doi: 10.1007/s10551-007-9629-4
- Greenwood, R., Oliver, C., Sahlin, K., & Suddaby, R. (Eds.). (2008). *The Sage Handbook of Organizational Institutionalism*. London: Sage Publications Ltd.
- Guidry, F., J. Leone, A., & Rock, S. (1999). Earnings-based bonus plans and earnings management by business-unit managers. *Journal of Accounting and Economics*, 26(1-3), 113-142. doi: 10.1016/s0165-4101(98)00037-8
- Hartmann, F. G. H., & Maas, V. S. (2010). Why Business Unit Controllers Create Budget Slack: Involvement in Management, Social Pressure, and Machiavellianism. [Article]. *Behavioral Research in Accounting*, 22(2), 27-49. doi: 10.2308/bria.2010.22.2.27
- Healy, P. M., & Wahlen, J. M. (1999). A Review of the Earnings Management Literature and Its Implications for Standard Setting. [Article]. *Accounting Horizons*, 13(4), 365-383.
- Hines, R. D. (1988). Financial accounting: In communicating reality, we construct reality. *Accounting, Organizations and Society*, 13(3), 251-261. doi: 10.1016/0361-3682(88)90003-7
- Indjejikian, R. J., & Matejka, M. (2006). Organizational Slack in Decentralized Firms: The Role of Business Unit Controllers. [Article]. *Accounting Review*, 81(4), 849-872.
- Janvrin, D., & Mascha, M. F. (2014). The financial close process: Implications for future research. *International Journal of Accounting Information Systems*(0). doi: 10.1016/j.accinf.2014.05.007
- Järvenpää, M. (2007). Making Business Partners: A Case Study on how Management Accounting Culture was Changed. [Article]. *European Accounting Review*, 16(1), 99-142. doi: 10.1080/09638180701265903

- Jha, A. (2013). Earnings Management Around Debt-Covenant Violations – An Empirical Investigation Using a Large Sample of Quarterly Data. [Article]. *Journal of Accounting, Auditing & Finance*, 28(4), 369-396. doi: 10.1177/0148558x13505597
- Jia, Y. (Ed.). (2008). *Essays on the Role of Managerial Type in Financial Reporting*. Tilburg: Tilburg University Press.
- Jorissen, A., & Otley, D. (2010). The management of accounting numbers: Case study evidence from the ‘crash’ of an airline. *Accounting and Business Research*, 40(1), 3-38. doi: 10.1080/00014788.2010.9663382
- Kakkuri-Knuuttila, M.-L., Lukka, K., & Kuorikoski, J. (2008). Straddling between paradigms: A naturalistic philosophical case study on interpretive research in management accounting. *Accounting, Organizations and Society*, 33(2-3), 267-291. doi: 10.1016/j.aos.2006.12.003
- Kepsu, M. (Ed.). (2012). *Earnings management in the process of preparing corporate financial reports*. Turku School of Economics: Uniprint.
- Knoops, C. (Ed.). (2010). *Verslaggevingstheorieën: Een wetenschapsfilosofische analyse*: Erasmus Universiteit.
- Lambert, C., & Sponem, S. (2012). Roles, Authority and Involvement of the Management Accounting Function: A Multiple Case-study Perspective. [Article]. *European Accounting Review*, 21(3), 565-589. doi: 10.1080/09638180.2011.629415
- Lok, J. (2010). Institutional logics as identity projects. [Article]. *Academy of Management Journal*, 53(6), 1305-1335. doi: 10.5465/amj.2010.57317866
- Lounsbury, M. (2008). Institutional rationality and practice variation: New directions in the institutional analysis of practice. *Accounting, Organizations and Society*, 33(4-5), 349-361. doi: DOI: 10.1016/j.aos.2007.04.001
- Lukka, K. (2010). The roles and effects of paradigms in accounting research. *Management Accounting Research*, 21(2), 110-115. doi: 10.1016/j.mar.2010.02.002
- Maas, V. S. (2005). De rol van de controller in Nederland. *Management Control & Accounting*(October 2005), 16-20.

- Maas, V. S., & Matějka, M. (2009). Balancing the Dual Responsibilities of Business Unit Controllers: Field and Survey Evidence. [Article]. *Accounting Review*, 84(4), 1233-1253. doi: 0.2308 / accr.2009.84.4.1233
- Malmi, T. (2010). Reflections on paradigms in action in accounting research. *Management Accounting Research*, 21(2), 121-123. doi: 10.1016/j.mar.2010.02.003
- Merchant, K. A. (2010). Paradigms in accounting research: A view from North America. *Management Accounting Research*, 21(2), 116-120. doi: 10.1016/j.mar.2010.02.004
- Merchant, K. A., & Rockness, J. (1994). The ethics of managing earnings: An empirical investigation. *Journal of Accounting and Public Policy*, 13(1), 79-94. doi: 10.1016/0278-4254(94)90013-2
- Morales, J., & Lambert, C. (2013). Dirty work and the construction of identity. An ethnographic study of management accounting practices. *Accounting, Organizations and Society*, 38(3), 228-244. doi: 10.1016/j.aos.2013.04.001
- Osma, B. G. (2008). Board Independence and Real Earnings Management: The Case of R&D Expenditure. [Article]. *Corporate Governance: An International Review*, 16(2), 116-131. doi: 10.1111/j.1467-8683.2008.00672.x
- Pierce, B., & O'Dea, T. (2003). Management accounting information and the needs of managers: Perceptions of managers and accountants compared. *The British Accounting Review*, 35(3), 257-290. doi: 10.1016/s0890-8389(03)00029-5
- Redmond, W. H. (2004). On Institutional Rationality. *jeconiss Journal of Economic Issues*, 38(1), 173-188.
- Rutherford, M. (1994). *Institutions in economics*. Cambridge: Cambridge University Press.
- Sandberg, J. (2005). How Do We Justify Knowledge Produced Within Interpretive Approaches? *Organizational Research Methods*, 8(1), 41-68. doi: 10.1177/1094428104272000
- Sarkar, J., Sarkar, S., & Sen, K. (2008). Board of Directors and Opportunistic Earnings Management: Evidence from India. [Article]. *Journal of Accounting, Auditing & Finance*, 23(4), 517-551.
- Sathe, V. (1983). The controller's role in management. *Organizational Dynamics*, 11(3), 31-48. doi: 10.1016/0090-2616(83)90004-9

- Saunders, M., Lewis, P., & Thornhill, A. (Eds.). (2009). *Research Methods for business students*. Harlow: Pearson Education Limited.
- Scapens, R. W. (1994). Never mind the gap: towards an institutional perspective on management accounting practice. *Management Accounting Research*, 5(3–4), 301–321. doi: 10.1006/mare.1994.1019
- Schipper, K. (1989). COMMENTARY on Earnings Management. [Article]. *Accounting Horizons*, 3(4), 91–102.
- Schrand, C. M., & Zechman, S. L. C. (2012). Executive overconfidence and the slippery slope to financial misreporting. *Journal of Accounting and Economics*, 53(1–2), 311–329. doi: 10.1016/j.jacceco.2011.09.001
- Scott, W. R. (Ed.). (2003). *Financial Accounting Theory* (Third ed.). Upper Saddle River NJ: Prentice Hall.
- Seybert, N. (2010). R&D Capitalization and Reputation-Driven Real Earnings Management. [Article]. *Accounting Review*, 85(2), 671–693. doi: 0.2308 / accr.2010.85.2.671
- Shapiro, B. P. (1997). Objectivity, relativism, and truth in external financial reporting: What's really at stake in the disputes? *Accounting, Organizations and Society*, 22(2), 165–185. doi: 10.1016/s0361-3682(96)00017-7
- Silverman, D. (2011). *Interpreting qualitative data*. London: Sage.
- Simon, H. A. (1955). A Behavioral Model of Rational Choice. *The Quarterly Journal of Economics*, 69(1), 99–118. doi: 10.2307/1884852
- Siti-Nabiha, A. K. (2009). Sensemaking in interpretive management accounting research: constructing a credible account. *International Journal of Qualitative Methods*, 8(1), 41–53.
- Stone, D. N., Hunton, J. E., & Wier, B. (2000). Succeeding in managerial accounting. Part 1: knowledge, ability, and rank. *Accounting, Organizations and Society*, 25(7), 697–715. doi: 10.1016/s0361-3682(99)00063-x
- Ten Rouwelaar, J. A., & Bots, J. M. (Eds.). (2008). *Business Unit Controller involvement in management* (Vol. July 2008 no. 08-07).
- Thornton, P. H., & Ocasio, W. (Eds.). (2008). *Institutional Logics*. London: Sage Publications.

- Van de Ven, A. C. N. (2014). Controller en Business Partner. *Maandblad voor Accountancy en Bedrijfseconomie*, 88(march), 84-91.
- Verstegen, B. H. J. (2006). Relating the Institutional Approach in Management Accounting to Institutional Economics: An Essay on Dual-mode Rationality. [Essay]. *Journal of Economic Issues (Association for Evolutionary Economics)*, 4, 1137-1151.
- Verstegen, B. H. J. (2011). A socio-economic view on management control. *International Journal of Social Economics*, 36(2), 13. doi: 10.1108/0306068291111091990
- Verstegen, B. H. J., De Loo, I., Mol, P., Slagter, K., & Geerkens, H. (2007). Classifying controllers by activities: An exploratory study. *Journal of Applied Management Accounting Research*(Summer), 9-32.
- Walsh, P., Craig, R., & Clarke, F. (1991). 'Big Bath Accounting' Using Extraordinary Items Adjustments: Australian Empirical Evidence. [EM]. *Journal of Business Finance & Accounting*, 18(2), 173-189. doi: 10.1111/j.1468-5957.1991.tb00587.x
- Wang, H.-D., & Lin, C.-J. (2013). Debt Financing and Earnings Management: An Internal Capital Market Perspective. [Article]. *Journal of Business Finance & Accounting*, 40(7/8), 842-868. doi: 10.1111/jbfa.12030
- Weissenberger, B. E., & Angelkort, H. (2011). Integration of financial and management accounting systems: The mediating influence of a consistent financial language on controllership effectiveness. *Management Accounting Research*, 22(3), 160-180. doi: 10.1016/j.mar.2011.03.003
- Xiong, Y., Zhou, H., & Varshney, S. (2010). The economic profitability of pre-IPO earnings management and IPO underperformance. [Article]. *Journal of Economics & Finance*, 34(3), 229-256. doi: 10.1007/s12197-008-9056-0
- Zoni, L., & Merchant, K. A. (2007). Controller involvement in management: an empirical study in large Italian corporations. [DOI: 10.1108/18325910710732849]. *Journal of Accounting & Organizational Change*, 3(1), 29-43.

